

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 975	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2020 - * 03	Amendment No. (req. for Amendments *)	
Filing by Nasdaq PHLX LLC Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)		
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>		Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>			
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <input type="text" value="A rule change to relocate the Phlx Rulebook into the new Rulebook Shell"/>					
<b>Contact Information</b> Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action. First Name * <input type="text" value="Angela"/> Last Name * <input type="text" value="Dunn"/> Title * <input type="text" value="Principal Associate General Counsel"/> E-mail * <input type="text" value="angela.dunn@nasdaq.com"/> Telephone * <input type="text" value="(215) 496-5692"/> Fax <input type="text"/>					
<b>Signature</b> Pursuant to the requirements of the Securities Exchange Act of 1934, has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. (Title *) Date <input type="text" value="01/28/2020"/> By <input type="text" value="John Zecca"/> <input type="text" value="EVP and Chief Legal Counsel"/> <input type="text" value="john.zecca@nasdaq.com"/>					
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.					

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to relocate rules from its current Rulebook into its new Rulebook shell.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 25, 2019. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn  
Principal Associate General Counsel  
Nasdaq, Inc.  
215-496-5692

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of this rule change is to relocate Phlx rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> The Exchange has already relocated options rules of its Affiliated Exchanges so that it may harmonize its rules, where applicable, across Nasdaq markets. The relocation and harmonization of the Phlx options rules is part of the Exchange's continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The Exchange believes that the placement of the Phlx Rules into their new location in the shell will facilitate the use of the Rulebook by members.

Universal Changes

The Exchange proposes to replace references to "Phlx XL", "Phlx XL II", "trading system" and "system" with the defined term "System" throughout the new rules. The Exchange proposes to replace the terms "specialist" and "Specialist" with the term "Lead Market Maker" to define this market participant throughout the Rulebook. The Exchange proposes to replace the terms "Remote Specialist" with the term "Remote Lead Market Maker" to define this market participant throughout the Rulebook. Any references to "Directed Specialist" shall be replaced with "Directed Lead Market Maker."

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<sup>3</sup> Previously, the Exchange added a shell structure to its Rulebook with the purpose of improving efficiency and readability and to align its rules closer to those of its five sister exchanges, Nasdaq BX, Inc.; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; Nasdaq GEMX, LLC; and Nasdaq MRX, LLC ("Affiliated Exchanges"). The shell structure currently contains eight (8) Chapters which, once complete, will apply a common set of rules to the Affiliated Exchanges. See Securities Exchange Act Release No. 82169 (November 29, 2017), 82 FR 57508 (December 5, 2017) (SR-Phlx-2017-97).

The Exchange proposes to replace the term “Registered Options Trader” with the term “Market Maker” to define this participant throughout the Rulebook. Any references to (“ROTs”) will be removed from the Rulebook. With respect to renaming the market participants, the Exchange notes that there are no changes to the roles and responsibilities of these market participants in connection with the name change.

The Exchange proposes to change references to “Commentary” to “Supplementary Material” to conform the term throughout the Rulebook. The defined terms “Exchange Act” and “SEC” replaced the terms “Securities Exchange Act of 1934” and “Securities and Exchange Commission”, respectively.

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites. The Exchange proposes to replace internal rule references to simply state “this Rule” where the rule is citing itself without a more specific cite included in the Rule. For example, if Phlx Rule 1014 refers currently to “Rule 1014” or “this Rule 1014” the Exchange will amend the phrase to simply “this Rule.” The Exchange proposes to conform numbering and lettering in certain rules to the remainder of the Rulebook. Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook and add new reserved rules where other Nasdaq Affiliated Exchanges may have a rule in use and there is no comparable rule on Phlx.

#### General 1

The Exchange proposes to relocate definitions from Rule 1 into proposed General 1, Section 1, except for the term “Options Exchange Official,” which will be relocated into proposed Options 1, Section 1.

#### General 2

General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Rule 52. Fees, Dues and Other Charges; Rule 924. Obligations of Members and Member Organizations to the Exchange; Rule 56. Effect of Suspension or Termination on Payment of Fees; and Rule 63. Effect of Suspension or Termination (re-titled “Fees, Dues and Other Charges”)
Section 3	Rule 651. Exchange’s Cost of Defending Legal Proceedings
Section 4	Rule 985. Affiliation of Ownership Restrictions
Section 5	Reserved
Section 6	Reserved
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved
Section 10	Reserved
Section 11	Reserved
Section 12	Rule 926. The Exchange's Business Continuity and Disaster Recovery Plan Testing Requirements for Member Organizations and PSX Participants Pursuant to Regulation SCI (re-titled “Business Continuity and Disaster Recovery”)
Section 13	Reserved
Section 14	Rule 990. Additional Requirements for Securities Listed on the Exchange Issued by Nasdaq or its Affiliates
Section 15	Reserved
Section 16	Reserved

Section 17	Rule 1015. Accommodations
Section 18	Rule 57. Members' Contracts and Rule 58. Exchange Contracts (re-titled "Contracts")
Section 19	Rule 59. Deliveries through Registered Clearing Agencies
Section 20	Rule 62. Disapproval of Business
Section 21	Rule 64. Office Vacated by Suspension or Termination
Section 22	Rule 1094. Sponsored Participants

The Exchange proposes to reserve those sections where Phlx does not have rules similar to other Nasdaq Affiliated Markets.

### General 3

The Exchange proposes to relocate the following rules into General 3, "Membership and Access."

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 910. Qualification as Member Organization
Section 2	Rule 901. Denial of and Conditions to Membership
Section 3	Reserved
Section 4	Reserved
Section 5	Rule 900.2. Membership Applications
Section 6	Reserved
Section 7	Rule 600. Registration
Section 8	Rule 602. Status Verification
Section 9	Rule 900. Administration of Rules by Membership Department

Section 10	Rule 900.1. General Powers and Duties of Membership Department
Section 11	Rule 908. Rights and Privileges of A-1 Permits
Section 12	Rule 911. Member and Member Organization Participation
Section 13	Rule 921. Qualification; Designation of Executive Representative
Section 14	Rule 912. Transfer of Accounts
Section 15	Rule 922. Certificate of Incorporation
Section 16	Rule 923. Review of Membership Department Decisions

The Exchange proposes to delete Rule 900 as unnecessary given the new Rulebook organization structure. The Exchange proposes to delete current Rule 900.2(e) within proposed General 3, Section 5, because Rule 798 is currently reserved and that provision is no longer applicable.

#### General 9

The Exchange proposes to adopt a new General 9, titled “Regulation.” The Exchange proposes to relocate the following rules into General 9:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 782. Manipulative Operations
Section 2	Rule 741. Customers' Securities and Rule 771. Excessive Trading of Members (re-titled Customers' Securities and Excessive Trading of Members’)
Section 3	Reserved
Section 4	Reserved
Section 5	Reserved
Section 6	Reserved



Section 7	Rule 783. Report of Financial Arrangements
Section 8	Reserved
Section 9	Reserved
Section 10	Rule 763. Recommendations to Customers (Suitability)
Section 11	Rule 764. Best Execution and Interpositioning
Section 12	Reserved
Section 13	Reserved
Section 14	Reserved
Section 15	Reserved
Section 16	Reserved
Section 17	Reserved
Section 18	Reserved
Section 19	Rule 754. Discretionary Power as to Customers' Accounts
Section 20	Rule 748. Supervision Rule
Section 21	761. Supervisory Procedures Relating to ITSFEA and to Prevention of Misuse of Material Nonpublic Information
Section 22	Reserved
Section 23	Reserved
Section 24	Reserved
Section 25	Rule 751. Accounts of Employees of Member Organizations
Section 26	Reserved
Section 27	Reserved
Section 28	Reserved
Section 29	Rule 749. Transactions for Employees of Exchange, etc. and Rule 750. Speculative Transactions for Employees of Certain Employers (re-titled "Transactions for Employees and Speculative Transactions for Employees of Certain Employers")
Section 30	Reserved

Section 31	Reserved
Section 32	Reserved
Section 33	Reserved
Section 34	Reserved
Section 35	Rule 2040. Nonregistered Foreign Finders
Section 36	Reserved
Section 37	Reserved
Section 38	Reserved
Section 39	Rule 705. Fidelity Bonds
Section 40	Reserved
Section 41	Reserved
Section 42	Reserved
Section 43	Reserved
Section 44	Reserved
Section 45	Reserved
Section 46	Reserved
Section 47	Reserved
Section 48	Reserved
Section 50	Reserved
Section 51	Reserved
Section 52	Reserved
Section 53	Rule 774. Disruptive Quoting and Trading Activity Prohibited
Section 54	Rule 777. Guarantees Not Permitted
Section 55	Rule 601. Office, Other Than Main Offices
Section 56	Rule 602. Status Verification

Section 57	Rule 603. Control of Offices
Section 58	Rule 605. Advertisements, Market Letters, Research Reports and Sales Literature
Section 59	Rule 610. Notification of Changes in Business Operations
Section 60	Rule 625. Training
Section 61	Rule 704. Assignment of Interest of Partner
Section 62	Rule 745. Partial Payments
Section 63	Rule 746. Diligence as to Accounts
Section 64	Rule 747. Approval of Accounts
Section 65	Rule 752. Statements to Be Sent to Customers
Section 66	Rule 753. Notwithstanding Power of Attorney
Section 67	Rule 773. Participation in Joint Accounts
Section 68	Rule 784. Report of Options
Section 69	Rule 786. Periodic Reports
Section 70	Rule 796. Underwriting of Securities by Member Organizations

### Equities 7

The Exchange proposes to relocate Rule 607 titled “Covered Sales Fee” to Equities 7, Equity Pricing at new proposed Section 5.<sup>4</sup> Rule 2040, Nonregistered Foreign Finders, does not appear in PSX Rule 3202, this rule applies to equity products today. The Exchange believes its failure to be included within PSX Rule 3202 was an oversight and is including this Rule within General 9. The Exchange believes its failure to be included within PSX Rule 3202 was an oversight.

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<sup>4</sup> Rule 607 is both an options and equities rule and is therefore being replicated in both Equity 7 and Options 7.

Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate definitions from Rule 1000, Applicability, Definitions and References, into proposed General 1, Section 1. The Exchange proposes not to relocate the terms “System Book Feed” and “System Securities” from Rule 1000 into Options 1, Section 1. The term “System Book Feed” is not utilized in the Rulebook currently. The term “System Securities” is only utilized within the definition of the term “System” at proposed Options 1, Section 1(a)(52) and within current Rule 911 which was relocated to General 2, Section 12. The term is simply replaced by referring to option series. The Exchange believes that replacing the term with the term “option series” will make the Rulebook clear. The Exchange also proposes to relocate the definition of “Option Exchange Official” which is currently located in General I, Section 1 into this section as this term relates to the trading of options.

Options 2

The Exchange proposes to rename Options 2 from “Options Trading Rules” to “Options Market Participants” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 507. Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options
Section 2	Reserved
Section 3	Rule 506. Allocation Application, Allocation, Reallocation, and Transfer; Rule 508. Transfer

	Application; and Rule 513. Voluntary Resignation of Options Privileges (re-titled “Allocation Application, Allocation, Reallocation, Transfer and Voluntary Resignation”
Section 4	Rule 1014. Obligations of Market Makers (a-d)
Section 5	Rule 1081. Electronic Market Maker Obligations and Quoting Requirements
Section 6	Rule 1014. Obligations of Market Makers, subparagraph (e) only
Section 7	Rule 1022. Securities Accounts and Orders of Specialists and Registered Options Traders
Section 8	Reserved
Section 9	Rule 510. Good Standing for Specialist, SQT, and RSQT
Section 10	Rule 1068. Directed Orders
Section 11	Rule 501. Specialist Appointment
Section 12	Rule 1020. Registration and Functions of Options Specialists
Section 13	Rule 1036. Affiliated Persons Of Specialists
Section 14	Rule 175. Limitations on Options Market Making

The Exchange proposes to relocate a portion of a sentence from current Rule 1014(b) to Options 8, Section 11(b). The sentence provides, “...Exchange options transactions initiated by such Market Maker on the Trading Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.” This sentence is being relocated into Options 8, Section 11 because it pertains to Floor Market Maker assignments. The remainder of current Rule 1014(b) was relocated to Options 3, Section 4(b).

Rule 452, “Limitations on Members' Trading Because of Customers' Orders” is being relocated into Options 8, Section 17.

Options 2A

The Exchange proposes to reserve Options Section 2A.

Options 3

The Exchange proposes to rename Options 3 from “Options Market Participants” to “Options Trading Rules” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 101. Hours of Business
Section 2	Rule 1013. Units of Trading and Rule 1067. Precedence of Highest Bid and Lowest Offer (re-titled “Units of Trading”)
Section 3	Rule 1034. Minimum Increments
Section 4	Rule 1019. Entry and Display of Quotes
Section 5	Rule 1096. Entry and Display of Orders
Section 6	Rule 1082. Firm Quotations, except Rule 1082(a)(ii)(C)
Section 7	Rule 1080 Electronic Acceptance of Quotes and Orders
Section 8	Rule 1017. Openings In Options
Section 9	Rule 1047. Trading Halts
Section 10	Rule 1089. Electronic Execution Priority and Processing in the System and Rule 1035. Zero-Bid Option Series (this rule will remain titled “Electronic Execution Priority and Processing in the System”)
Section 11	Reserved
Section 12	Rule 1088. Qualified Contingent Cross Order (re-titled “Electronic Qualified Contingent Cross Order”)
Section 13	Rule 1087. Price Improvement XL (“PIXL”)
Section 14	Rule 1098(a)-(f) Complex Orders on the System (re-titled “Complex Orders”)

Section 15	Rule 1099. Risk Protections (re-titled “Simple Risk Protections)
Section 16	Rule 1098(g)- (j) to be titled “Complex Orders Risk Protections”
Section 17	Rule 1073. Kill Switch
Section 18	Rule 1074. Detection of Loss of Communication
Section 19	Rule 1090. Mass Cancellation of Trading Interest
Section 20	Rule 1092. Nullification and Adjustment of Options Transactions including Obvious Errors
Section 21	Rule 1016. Exchange Sharing of Phlx XL Participant-Designated Risk Settings (re-titled as “Access to and Conduct on Phlx”)
Section 22	Rule 1097. Limitations on Order Entry.
Section 23	Rule 1070. Data Feeds and Trade Information
Section 24	Rule 128. Price of Execution Binding
Section 25	Reserved
Section 26	Rule 1082(a)(ii)(C) to be titled “Message Traffic Mitigation”
Section 27	Rule 652. Limitation of Exchange Liability and Reimbursement of Certain Expenses
Section 28	Reserved

#### Options 4

The Exchange proposes to relocate rules within Options 4 Options Listing Rules as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1007. Designation Of Securities
Section 2	Rule 1008. Rights And Obligations Of Holders And Writers
Section 3	Rule 1009. Criteria for Underlying Securities/Rule 1011. Option Contracts To Be Traded
Section 4	Rule 1010. Withdrawal of Approval of Underlying Securities or Options

Section 5	Rule. Series of Options Open for Trading
Section 6	Reserved
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved
Section 10	Rule 99. Backup Trading Arrangements
Section 11	Rule 1057. U.S. Dollar-Settled Foreign Currency Option Closing Settlement Value

Rule text within current Commentary .01(6) of Rule 1010, which provides, "...provided, however, that in the case of a Restructure Security approved for options listing and trading under paragraph (d) of Commentary .05 under Rule 1009, such trading volume requirements must be satisfied based on the trading volume history of the Restructure Security."

#### Options 4A

The Exchange proposes to relocate rules within new proposed Options 4A, which is proposed to be titled "Options Index Rules" as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1000A. Applicability and Definitions (paragraph (a))
Section 2	Rule 1000A. Applicability and Definitions (paragraph (b))
Section 3	Rule 1009A. Designation of the Index
Section 4	Reserved.
Section 5	Rule 1100A. Dissemination of Information
Section 6	Rule 1001A. Position Limits
Section 7	Reserved



Section 8	Reserved
Section 9	Reserved
Section 10	Rule 1002A. Exercise Limits
Section 11	Reserved
Section 12	Rule 1101A. Terms of Option Contracts
Section 13	Reserved
Section 14	Reserved
Section 15	Rule 1042A. Exercise of Option Contracts
Section 16	Reserved
Section 17	Rule 1006A. Other Restrictions on Options Transactions and Exercises
Section 18	Rule 1047A. Trading Rotations, Halts or Reopenings
Section 19	Rule 1102A. Limitation of Exchange Liability
Section 20	Rule 1105A. Standard & Poor's® Index
Section 21	Rule 1107A. Nasdaq, Inc. Indexes

The Exchange proposes to amend the rule text within Options 4A, Section 18(b) to remove the word “Specialist” and replace that word with “Exchange” and cite to the manual authority within current Rule 1047(b). The Exchange previously removed any functionality which permitted executions to be manually handled by a specialist.<sup>5</sup> An Options Exchange Official determines a manual trading halt.

<sup>5</sup> Manual execution by a specialist could previously occur in AUTOM, a prior exchange system. Specialist manual handling is obsolete. AUTOM and AUTO-X were replaced by Phlx XL, which is now defined as “System”. See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

Options 4B

The Exchange proposes a new Options 4B, titled “Options on Treasury Securities.”

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1000D. Applicability of 1000D Series -Treasury Securities Options
Section 2	Rule 1001D. Definitions - Treasury Securities Options
Section 3	Rule 1002D. Position Limits - Treasury Securities Options
Section 4	Rule 1003D. Exercise Limits - Treasury Securities Options
Section 5	Rule 1004D. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options
Section 6	Rule 1005D. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options
Section 7	Rule 1006D. Criteria for Securities Underlying Treasury Securities Options
Section 8	Rule 1007D. Withdrawal of Approval of Underlying Treasury Securities or Options
Section 9	Rule 1008D. Terms of Treasury Securities Options
Section 10	Rule 1009D. Series of Treasury Securities Options Open for Trading
Section 11	Rule 1010D. Days and Hours of Business of Treasury Securities Options
Section 12	Rule 1011D. Trading Rotations - Treasury Securities Options
Section 13	Rule 1012D. Trading Halts and Suspension of Trading, Obvious and Catastrophic Errors - Treasury Securities Options
Section 14	Rule 1013D. Minimum Increment and Meaning of Premium Bids and Offers for Treasury Securities Options
Section 15	Rule 1014D. Specialist and Registered Option Trader Obligations and Electronic Trading - Treasury Securities Options
Section 16	Rule 1015D. Accommodation Trading - Treasury Securities Options
Section 17	Rule 1016D. Reconciliation of Unmatched Trades - Treasury Securities Options
Section 18	Rule 1018D. Limit Book for Treasury Securities Options

Section 19	Rule 1019D. Bid / Ask Differentials - Treasury Securities Options
Section 20	Rule 1020D. Allocation of Exercise Assignment Notices - Treasury Securities Options
Section 21	Rule 1021D. Delivery and Payment - Treasury Securities Options
Section 22	Rule 1022D. Margin Requirements - Treasury Securities Options
Section 23	Rule 1023D. Furnishing of Books, Records and Other Information - Treasury Securities Options
Section 24	Rule 1024D. Communication Links - Treasury Securities Options
Section 25	Rule 1025D. Doing Business With the Public - Treasury Securities Options

### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets” and relocate rules within Options 5 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1083. Order Protection; Locked and Crossed Markets
Section 2	Rule 1084. Order Protection
Section 3	Rule 1086. Locked and Crossed Markets
Section 4	Rule 1093. Away Markets and Order Routing (re-titled “Order Routing”)
Section 5	Rule 1091. Cancellation of Orders and Error Account

### Options 6

The Exchange proposes rename Options 6 from “Order Protection and Locked and Cross Markets” to “Options Trade Administration” and relocate rules within Options 6 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
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Section 1	Rule 1037. Authorization to Give Up
Section 2	Rule 1052. Responsibility Of Clearing Members For Exchange Options Transactions
Section 3	Rule 1051. General Comparison And Clearance Rule
Section 4	Reserved
Section 5	Rule 1058. Transfer of Positions
Section 6	Rule 1045. Off-Exchange RWA Transfers
Section 7	Rule 1059. In-Kind Exchange of Options Positions and ETF Shares
Section 8	Rule 1046. Clearing Arrangements
Section 9	Rule 1048. Stock Transfer Tax
Section 10	Rule 1053. Filing Of Trade Information
Section 11	Rule 1054. Verification Of Trades And Reconciliation Of Uncompared Trades
Section 12	Rule 1055. Reporting Of Compared Trades To Options Clearing Corporation
Section 13	Rule 1056. Maintaining Office And Filing Signatures

#### Options 6A

The Exchange proposes to relocate rules within new proposed Options 6A titled “Closing Transactions” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1041. Options Contracts Of Suspended Members
Section 2	Rule 1040. Failure To Pay Premium

#### Options 6B

The Exchange proposes to relocate rules within new proposed Options 6B titled “Exercises and Deliveries” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1042. Exercise Of Equity Option Contracts
Section 2	Rule 1043. Allocation of Exercise Notices
Section 3	Rule 1044. Delivery and Payment

### Options 6C

The Exchange proposes to relocate rules within new proposed Options 6C titled “Margins” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Reserved
Section 3	Rule 721. Proper and Adequate Margin
Section 4	Reserved
Section 5	Reserved
Section 6	Reserved
Section 7	Rule 723. Prohibition on Free-Riding in Cash Accounts

### Options 6D

The Exchange proposes to relocate rules within new proposed Options 6D titled “Net Capital Requirements” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 703. Financial Responsibility and Reporting
Section 2	Reserved

Section 3	Reserved
Section 4	Reserved

### Options 6E

The Exchange proposes to relocate rules within new proposed Options 6E titled “Records, Reports and Audits” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 760. Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Rule 1003. Reporting Of Options Positions
Section 3	Reserved
Section 4	Rule 712. Independent Audit
Section 5	Rule 785. Automated Submission of Trading Data
Section 6	Reserved
Section 7	Rule 980. Regulatory Services Agreements
Section 8	Reserved
Section 9	Reserved

The commentary section in Rule 760 has been relocated to Options 6E, Section 1(b).

### Options 7

The Exchange proposes to relocate Rule 607 titled “Covered Sales Fee to Options 7, Options Pricing, at new proposed Section 12.<sup>6</sup>

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<sup>6</sup> Rule 607 is both an options and equities rule and is therefore being replicated in both Equity 7 and Options 7.

Options 8

Rule 110, “Bids and Offers –Manners,” Rule 119, “Precedence of Highest Bid” and Rule 120, “Precedence of Offers at Same Price” are being relocated within the Supplementary Material to Options 8, Section 24, “Bids and Offers – Premium”.

The Exchange proposes to remove references to Rule 723 as this rule no longer exists. The Exchange also proposes to remove obsolete rule text at the end of Options 8, Section 39 at C-2, Options Floor Based Management System, which provides, “*The Exchange anticipates that it will implement the Snapshot feature referenced herein and described further in Options 8, Section 28(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.*”

Options 9

The Exchange proposes to relocate rules within new proposed Options 9 titled “Business Conduct” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 707. Conduct Inconsistent with Just and Equitable Principles of Trade
Section 2	Reserved
Section 3	Reserved
Section 4	Reserved
Section 5	Rule 708. Acts Detrimental to the Interest or Welfare of the Exchange
Section 6	Reserved
Section 7	Reserved

Section 8	Reserved
Section 9	Reserved
Section 10	Reserved
Section 11	Reserved
Section 12	Reserved
Section 13	Rule 1001. Position Limits
Section 14	Reserved
Section 15	Rule 1002. Exercise Limits
Section 16	Reserved
Section 17	Rule 1004. Liquidation Of Positions
Section 18	Rule 1005. Limit On Uncovered Short Positions
Section 19	Rule 1006. Other Restrictions on Exchange Options Transactions and Exercises
Section 20	Reserved
Section 21	Rule 757. Anti-Money Laundering Compliance Program
Section 22	Reserved
Section 23	Reserved
Section 24	Rule 1050. Violation Of By-Laws And Rules Of Options Clearing Corporation

### Options 10

The Exchange proposes to relocate rules within new proposed Options 10 titled “Doing Business with the Public” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved



Section 2	Rule 1024. Conduct of Accounts for Options Trading subparagraph (a) (re-titled “Registration of Options Principals”)
Section 3	Reserved
Section 4	Reserved
Section 5	Reserved
Section 6	Rule 1024. Conduct of Accounts for Options Trading subparagraph (b) (re-titled “Opening of Accounts”)
Section 7	Rule 1025. Supervision of Accounts
Section 8	Rule 1026. Suitability
Section 9	Rule 1027. Discretionary Accounts
Section 10	Rule 1028. Confirmations and Complaints subparagraph (a) (re-titled “Confirmations to Customers”)
Section 11	Rule 1032. Statements of Accounts
Section 12	Reserved
Section 13	Rule 1029. Delivery of Options Disclosure Documents
Section 14	Rule 742. Restrictions on Pledge of Customers' Securities
Section 15	Reserved
Section 16	Reserved
Section 17	Reserved
Section 18	Reserved
Section 19	Reserved
Section 20	Rule 1049. Options Communications
Section 21	Reserved
Section 22	Rule 1028. Confirmations and Complaints subparagraph (b) (re-titled “Customer Complaints”)
Section 23	Rule 762. Telemarketing

Section 24	Rule 1030. Transactions With Issuers
Section 25	Rule 1031. Restricted Stocks

The Exchange proposes to reserve Options 10, Sections 24 and 25. The Commentary section in Phlx Rules 1027 is being relocated to Section (f) within Options 10, Section 9. The Commentary section in Phlx Rules 1028 is being relocated to Section (f) within Options 10, Section 22.

#### Options 11

Finally, the Exchange proposes to relocate the Options Minor Rule Violations into Options 11 titled “Minor Rule Plan Violations” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	A-1 Specialist as ROT
Section 2	F-1 Option Quote Parameters
Section 3	F-2 Failure to Comply with an Exchange Inquiry
Section 4	F-3 Affiliations
Section 5	F-4 Unusual Market Conditions
Section 6	F-5 Supervisory Procedures Relating to ITSFEA
Section 7	F-6 Minor Infractions of Position/Exercise Limits and Hedge Exemptions
Section 8	F-7 Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts
Section 9	F-8 Options Exchange Official Rulings
Section 10	F-9 Failure to Provide Notification of Changes in Business Operations
Section 11	F-10 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD
Section 12	F-11 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts

Section 13	G-1 Index Option Exercise Advices
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PSX Rules<sup>7</sup>

Rule 133, “Trading Halts Due to Extraordinary Market Volatility” is being relocated to new PSX Rule 3101 as this rule is solely an equities rule. Rule 652, “Limitation of Exchange Liability and Reimbursement of Certain Expenses” is being relocated into new PSX Rule 3102.<sup>8</sup> Rule 103, “Dealings on the Exchange – Securities” is being relocated to new PSX Rule 3400. Rule 112, “Bids and Offers – “When Issued”” is being relocated to new PSX Rule 3401. Rule 128, “Price of Execution Binding” is being relocated to new PSX Rule 3402.<sup>9</sup> Rule 274, “Payment on Delivery—Collect on Delivery” is being relocated to new PSX Rule 3403.<sup>10</sup> Rule 279, “Book-Entry Settlement” is being relocated to new PSX Rule 3404. Rule 431, “Ex-dividend, Ex-rights” is being relocated into new PSX Rule 3405. Rule 432, “Ex-warrants” is being relocated into new PSX Rule 3406. Rule 433, “Buyer Entitled to Dividend, etc.” is being relocated into new PSX Rule 3407. Rule 434, “Claims for Dividend, etc.” is being relocated into new PSX Rule 3408. Rule 451, “Taking or Supplying Securities Named in Order” is being relocated into new PSX Rule 3409. Rule 452, “Limitations on Members’

<sup>7</sup> PSX Rule 3202 currently notes rules which are incorporated by reference into PSX Rules. The rules within this section which are being relocated are currently part of the PSX Rules today.

<sup>8</sup> Rule 652 is also being replicated into Options 3, Section 27 as this rule applies to both equities and options.

<sup>9</sup> Rule 128 is being replicated within Options 3, Section 24 and also within the PSX Rules as this rule applies to both equities and options.

<sup>10</sup> The Exchange is eliminating rule text related to the effective date of the rule. This language is obsolete. The Supplementary Material is being relocated to the main body of the Rule.

Trading Because of Customers' Orders” is being relocated into new PSX Rule 3410.<sup>11</sup> Rule 453, “Successive Transactions by Members” is being relocated into new PSX Rule 3411. Rule 455, “Short Sales” is being relocated into new PSX Rule 3412. Rule 721, “Proper and Adequate Margin” is being relocated into new PSX Rule 3413.<sup>12</sup> Rule 723, “Prohibition on Free-Riding in Cash Accounts” is being relocated into new PSX Rule 3414.<sup>13</sup> Rule 703, “Financial Responsibility and Reporting” is being relocated into new PSX Rule 3500.<sup>14</sup> Rule 712, “Independent Audit” is being relocated into new PSX Rule 3501.<sup>15</sup> Rule 785, “Automated Submission of Trading Data” is being relocated into new PSX Rule 3502.<sup>16</sup> Rule 707, “Conduct Inconsistent with Just and Equitable Principles of Trade” is being relocated into Rule 3503.<sup>17</sup> Rule 708, “Acts Detrimental to the Interest or Welfare of the Exchange” is being relocated into Rule 3504.<sup>18</sup> Rule 742, “Restrictions on

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<sup>11</sup> Rule 452, “Limitations on Members' Trading Because of Customers' Orders” is also being relocated into Options 8, Section 17. The Supplementary Material is being relocated to the main body of the Rule.

<sup>12</sup> Rule 721 is being replicated within Options 6C, Section 3 and also within the PSX Rules as this rule applies to both equities and options.

<sup>13</sup> Rule 723 is being replicated within Options 6C, Section 7 and also within the PSX Rules as this rule applies to both equities and options.

<sup>14</sup> Rule 703 is being replicated within Options 6D, Section 1 and also within the PSX Rules as this rule applies to both equities and options.

<sup>15</sup> Rule 712 is being replicated within Options 6E, Section 4 and also within the PSX Rules as this rule applies to both equities and options.

<sup>16</sup> Rule 785 is being replicated within Options 6E, Section 5 and also within the PSX Rules as this rule applies to both equities and options.

<sup>17</sup> Rule 707 is being replicated within Options 9, Section 1 and also within the PSX Rules as this rule applies to both equities and options.

<sup>18</sup> Rule 708 is being replicated within Options 9, Section 5 and also within the PSX Rules as this rule applies to both equities and options.

Pledge of Customers' Securities" is being relocated into new PSX Rule 3505.<sup>19</sup> Rule 757, "Anti-Money Laundering Compliance Program" is being relocated into new PSX Rule 3506.<sup>20</sup> Rule 762, "Telemarketing" is being relocated into new PSX Rule 3507.<sup>21</sup> Rule 980, "Regulatory Services Agreements" is being relocated into new PSX Rule 3600.<sup>22</sup>

The Exchange also proposes to amend PSX Rule 3202 to remove rules that: (1) have been relocated into a general section and are therefore applicable to equities; (2) have been relocated into the PSX Rules or Equity 7; (3) which are reserved rules; and (4) remove references to Rule 623 (Fingerprinting), Rule 722 (Miscellaneous Securities Margin Accounts) and Rule 772 (Trading for Joint Account) as these rules do not exist in the Phlx Rulebook.

#### Equity Titles

The Exchange proposes to amend the current titles of Equity 2, 3, 4 and 7. The Exchange proposes to rename Equity 2, from "Equity Trading Rules" to "Equity Market Participants." The Exchange proposes to rename Equity 3 from "Equity Market Participants" to "Equity Trading Rules." The Exchange proposes to rename Equity 4

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<sup>19</sup> Rule 742 is being replicated within Options 10, Section 14 and also within the PSX Rules as this rule applies to both equities and options.

<sup>20</sup> Rule 757 is being replicated within Options 9, Section 21 and also within the PSX Rules as this rule applies to both equities and options.

<sup>21</sup> Rule 762 is being replicated within Options 10, Section 23 and also within the PSX Rules as this rule applies to both equities and options.

<sup>22</sup> Rule 980 is being replicated within Options 6E, Section 7 and also within the PSX Rules as this rule applies to both equities and options.

from “Equity Listing Rules” to “Limit Up-Limit Down”. Finally, the Exchange proposes to reserve Equity 6 which is currently titled “Limit Up-Limit Down.”

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>23</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>24</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules by relocating its Rules into the new Rulebook shell together with other rules which have already been relocated. The Exchange’s proposal is consistent with the Act and will protect investors and the public interest by harmonizing its rules, where applicable, across Nasdaq markets so that members can readily locate rules which cover similar topics. The relocation and harmonization of the Phlx Rules is part of the Exchange’s continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The Exchange believes that the placement of the Phlx Rules into their new location in the shell will facilitate the use of the Rulebook by members. Specifically, the Exchange believes that market participants that are members of more than one Nasdaq market will benefit from the ability to compare Rulebooks.

The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The renumbering, re-lettering, deleting reserved rules, amending cross-references and other minor technical changes will bring greater transparency to Phlx’s Rules. The Exchange intends to file other rule change to relocate Affiliated

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<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

Exchange Rulebooks to relocate corresponding rules into the same location in each Rulebook for ease of reference. The Exchange believes its proposal will benefit investors and the general public by increasing the transparency of its Rulebook and promoting easy comparisons among the various Nasdaq Rulebooks.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the Rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to Phlx's Rules.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>25</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>26</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii)

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>26</sup> 17 CFR 240.19b-4(f)(6).

does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the rule changes are intended to reorganize Phlx Rules to make it easier for members to locate the various rules. The proposed rule change does not impose any significant burden on competition because the rule changes are non-substantive in nature and intended to bring clarity to the rule. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to Phlx's Rules.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits



the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to immediately relocate its rules. The Exchange desires to bring greater clarity to its rules for the benefit of investors and the general public. The Exchange's relocation is part of a larger effort to reorganize its rules and those of Affiliated Exchanges. The Exchange notes that it is important that it be permitted to reorganize its Rulebook without delay to ensure that it would be able to continue to file other rules which are affected by this relocation in a timely manner to maintain the Exchange's obligations as a self-regulatory organization and also to permit the Exchange to modify its Rules without delay.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.

5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2020-03)

January \_\_, 2020

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Relocate the Phlx Rulebook into the New Rulebook Shell

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 28, 2020 Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to relocate rules from its current Rulebook into its new Rulebook shell.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule change is to relocate Phlx rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> The Exchange has already relocated options rules of its Affiliated Exchanges so that it may harmonize its rules, where applicable, across Nasdaq markets. The relocation and harmonization of the Phlx options rules is part of the Exchange's continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The Exchange believes that the placement of the Phlx Rules into their new location in the shell will facilitate the use of the Rulebook by members.

Universal Changes

The Exchange proposes to replace references to "Phlx XL", "Phlx XL II", "trading system" and "system" with the defined term "System" throughout the new rules. The Exchange proposes to replace the terms "specialist" and "Specialist" with the term "Lead Market Maker" to define this market participant throughout the Rulebook. The

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<sup>3</sup> Previously, the Exchange added a shell structure to its Rulebook with the purpose of improving efficiency and readability and to align its rules closer to those of its five sister exchanges, Nasdaq BX, Inc.; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; Nasdaq GEMX, LLC; and Nasdaq MRX, LLC ("Affiliated Exchanges"). The shell structure currently contains eight (8) Chapters which, once complete, will apply a common set of rules to the Affiliated Exchanges. See Securities Exchange Act Release No. 82169 (November 29, 2017), 82 FR 57508 (December 5, 2017) (SR-Phlx-2017-97).

Exchange proposes to replace the terms “Remote Specialist” with the term “Remote Lead Market Maker” to define this market participant throughout the Rulebook. Any references to “Directed Specialist” shall be replaced with “Directed Lead Market Maker.” The Exchange proposes to replace the term “Registered Options Trader” with the term “Market Maker” to define this participant throughout the Rulebook. Any references to (“ROTs”) will be removed from the Rulebook. With respect to renaming the market participants, the Exchange notes that there are no changes to the roles and responsibilities of these market participants in connection with the name change.

The Exchange proposes to change references to “Commentary” to “Supplementary Material” to conform the term throughout the Rulebook. The defined terms “Exchange Act” and “SEC” replaced the terms “Securities Exchange Act of 1934” and “Securities and Exchange Commission”, respectively.

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites. The Exchange proposes to replace internal rule references to simply state “this Rule” where the rule is citing itself without a more specific cite included in the Rule. For example, if Phlx Rule 1014 refers currently to “Rule 1014” or “this Rule 1014” the Exchange will amend the phrase to simply “this Rule.” The Exchange proposes to conform numbering and lettering in certain rules to the remainder of the Rulebook. Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook and add new reserved rules where other Nasdaq Affiliated Exchanges may have a rule in use and there is no comparable rule on Phlx.

#### General 1

The Exchange proposes to relocate definitions from Rule 1 into proposed General 1, Section 1, except for the term “Options Exchange Official,” which will be relocated into proposed Options 1, Section 1.

General 2

General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Rule 52. Fees, Dues and Other Charges; Rule 924. Obligations of Members and Member Organizations to the Exchange; Rule 56. Effect of Suspension or Termination on Payment of Fees; and Rule 63. Effect of Suspension or Termination (re-titled “Fees, Dues and Other Charges”)
Section 3	Rule 651. Exchange’s Cost of Defending Legal Proceedings
Section 4	Rule 985. Affiliation of Ownership Restrictions
Section 5	Reserved
Section 6	Reserved
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved

Section 10	Reserved
Section 11	Reserved
Section 12	Rule 926. The Exchange's Business Continuity and Disaster Recovery Plan Testing Requirements for Member Organizations and PSX Participants Pursuant to Regulation SCI (re-titled "Business Continuity and Disaster Recovery")
Section 13	Reserved
Section 14	Rule 990. Additional Requirements for Securities Listed on the Exchange Issued by Nasdaq or its Affiliates
Section 15	Reserved
Section 16	Reserved
Section 17	Rule 1015. Accommodations
Section 18	Rule 57. Members' Contracts and Rule 58. Exchange Contracts (re-titled "Contracts")
Section 19	Rule 59. Deliveries through Registered Clearing Agencies
Section 20	Rule 62. Disapproval of Business
Section 21	Rule 64. Office Vacated by Suspension or Termination
Section 22	Rule 1094. Sponsored Participants

The Exchange proposes to reserve those sections where Phlx does not have rules similar to other Nasdaq Affiliated Markets.

### General 3

The Exchange proposes to relocate the following rules into General 3, "Membership and Access."

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 910. Qualification as Member Organization

Section 2	Rule 901. Denial of and Conditions to Membership
Section 3	Reserved
Section 4	Reserved
Section 5	Rule 900.2. Membership Applications
Section 6	Reserved
Section 7	Rule 600. Registration
Section 8	Rule 602. Status Verification
Section 9	Rule 900. Administration of Rules by Membership Department
Section 10	Rule 900.1. General Powers and Duties of Membership Department
Section 11	Rule 908. Rights and Privileges of A-1 Permits
Section 12	Rule 911. Member and Member Organization Participation
Section 13	Rule 921. Qualification; Designation of Executive Representative
Section 14	Rule 912. Transfer of Accounts
Section 15	Rule 922. Certificate of Incorporation
Section 16	Rule 923. Review of Membership Department Decisions

The Exchange proposes to delete Rule 900 as unnecessary given the new Rulebook organization structure. The Exchange proposes to delete current Rule 900.2(e) within proposed General 3, Section 5, because Rule 798 is currently reserved and that provision is no longer applicable.

#### General 9

The Exchange proposes to adopt a new General 9, titled “Regulation.” The Exchange proposes to relocate the following rules into General 9:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 782. Manipulative Operations
Section 2	Rule 741. Customers' Securities and Rule 771. Excessive Trading of Members (re-titled Customers' Securities and Excessive Trading of Members")
Section 3	Reserved
Section 4	Reserved
Section 5	Reserved
Section 6	Reserved
Section 7	Rule 783. Report of Financial Arrangements
Section 8	Reserved
Section 9	Reserved
Section 10	Rule 763. Recommendations to Customers (Suitability)
Section 11	Rule 764. Best Execution and Interpositioning
Section 12	Reserved
Section 13	Reserved
Section 14	Reserved
Section 15	Reserved
Section 16	Reserved
Section 17	Reserved
Section 18	Reserved
Section 19	Rule 754. Discretionary Power as to Customers' Accounts
Section 20	Rule 748. Supervision Rule
Section 21	761. Supervisory Procedures Relating to ITSFEA and to Prevention of Misuse of Material Nonpublic Information



Section 22	Reserved
Section 23	Reserved
Section 24	Reserved
Section 25	Rule 751. Accounts of Employees of Member Organizations
Section 26	Reserved
Section 27	Reserved
Section 28	Reserved
Section 29	Rule 749. Transactions for Employees of Exchange, etc. and Rule 750. Speculative Transactions for Employees of Certain Employers (re-titled "Transactions for Employees and Speculative Transactions for Employees of Certain Employers")
Section 30	Reserved
Section 31	Reserved
Section 32	Reserved
Section 33	Reserved
Section 34	Reserved
Section 35	Rule 2040. Nonregistered Foreign Finders
Section 36	Reserved
Section 37	Reserved
Section 38	Reserved
Section 39	Rule 705. Fidelity Bonds
Section 40	Reserved
Section 41	Reserved
Section 42	Reserved
Section 43	Reserved
Section 44	Reserved
Section 45	Reserved
Section 46	Reserved
Section 47	Reserved

Section 48	Reserved
Section 50	Reserved
Section 51	Reserved
Section 52	Reserved
Section 53	Rule 774. Disruptive Quoting and Trading Activity Prohibited
Section 54	Rule 777. Guarantees Not Permitted
Section 55	Rule 601. Office, Other Than Main Offices
Section 56	Rule 602. Status Verification
Section 57	Rule 603. Control of Offices
Section 58	Rule 605. Advertisements, Market Letters, Research Reports and Sales Literature
Section 59	Rule 610. Notification of Changes in Business Operations
Section 60	Rule 625. Training
Section 61	Rule 704. Assignment of Interest of Partner
Section 62	Rule 745. Partial Payments
Section 63	Rule 746. Diligence as to Accounts
Section 64	Rule 747. Approval of Accounts
Section 65	Rule 752. Statements to Be Sent to Customers
Section 66	Rule 753. Notwithstanding Power of Attorney
Section 67	Rule 773. Participation in Joint Accounts
Section 68	Rule 784. Report of Options
Section 69	Rule 786. Periodic Reports
Section 70	Rule 796. Underwriting of Securities by Member Organizations

### Equities 7

The Exchange proposes to relocate Rule 607 titled “Covered Sales Fee” to Equities 7, Equity Pricing at new proposed Section 5.<sup>4</sup> Rule 2040, Nonregistered Foreign Finders, does not appear in PSX Rule 3202, this rule applies to equity products today. The Exchange believes its failure to be included within PSX Rule 3202 was an oversight and is including this Rule within General 9.

### Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate definitions from Rule 1000, Applicability, Definitions and References, into proposed General 1, Section 1. The Exchange proposes not to relocate the terms “System Book Feed” and “System Securities” from Rule 1000 into Options 1, Section 1. The term “System Book Feed” is not utilized in the Rulebook currently. The term “System Securities” is only utilized within the definition of the term “System” at proposed Options 1, Section 1(a)(52) and within current Rule 911 which was relocated to General 2, Section 12. The term is simply replaced by referring to option series. The Exchange believes that replacing the term with the term “option series” will make the Rulebook clear. The Exchange also proposes to relocate the definition of “Option Exchange Official” which is currently located in General I, Section 1 into this section as this term relates to the trading of options.

### Options 2

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<sup>4</sup> Rule 607 is both an options and equities rule and is therefore being replicated in both Equity 7 and Options 7.

The Exchange proposes to rename Options 2 from “Options Trading Rules” to “Options Market Participants” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 507. Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options
Section 2	Reserved
Section 3	Rule 506. Allocation Application, Allocation, Reallocation, and Transfer; Rule 508. Transfer Application; and Rule 513. Voluntary Resignation of Options Privileges (re-titled “Allocation Application, Allocation, Reallocation, Transfer and Voluntary Resignation”)
Section 4	Rule 1014. Obligations of Market Makers (a-d)
Section 5	Rule 1081. Electronic Market Maker Obligations and Quoting Requirements
Section 6	Rule 1014. Obligations of Market Makers, subparagraph (e) only
Section 7	Rule 1022. Securities Accounts and Orders of Specialists and Registered Options Traders
Section 8	Reserved
Section 9	Rule 510. Good Standing for Specialist, SQT, and RSQT
Section 10	Rule 1068. Directed Orders
Section 11	Rule 501. Specialist Appointment
Section 12	Rule 1020. Registration and Functions of Options Specialists
Section 13	Rule 1036. Affiliated Persons Of Specialists
Section 14	Rule 175. Limitations on Options Market Making

The Exchange proposes to relocate a portion of a sentence from current Rule 1014(b) to Options 8, Section 11(b). The sentence provides, “...Exchange options transactions initiated by such Market Maker on the Trading Floor for any account in

which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.” This sentence is being relocated into Options 8, Section 11 because it pertains to Floor Market Maker assignments. The remainder of current Rule 1014(b) was relocated to Options 3, Section 4(b).

Rule 452, “Limitations on Members' Trading Because of Customers' Orders” is being relocated into Options 8, Section 17.

### Options 2A

The Exchange proposes to reserve Options Section 2A.

### Options 3

The Exchange proposes to rename Options 3 from “Options Market Participants” to “Options Trading Rules” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 101. Hours of Business
Section 2	Rule 1013. Units of Trading and Rule 1067. Precedence of Highest Bid and Lowest Offer (re-titled “Units of Trading”)
Section 3	Rule 1034. Minimum Increments
Section 4	Rule 1019. Entry and Display of Quotes
Section 5	Rule 1096. Entry and Display of Orders
Section 6	Rule 1082. Firm Quotations, except Rule 1082(a)(ii)(C)
Section 7	Rule 1080 Electronic Acceptance of Quotes and Orders
Section 8	Rule 1017. Openings In Options
Section 9	Rule 1047. Trading Halts

Section 10	Rule 1089. Electronic Execution Priority and Processing in the System and Rule 1035. Zero-Bid Option Series (this rule will remain titled “Electronic Execution Priority and Processing in the System”)
Section 11	Reserved
Section 12	Rule 1088. Qualified Contingent Cross Order (re-titled “Electronic Qualified Contingent Cross Order”)
Section 13	Rule 1087. Price Improvement XL (“PIXL”)
Section 14	Rule 1098(a)-(f) Complex Orders on the System (re-titled “Complex Orders”)
Section 15	Rule 1099. Risk Protections (re-titled “Simple Risk Protections”)
Section 16	Rule 1098(g)- (j) to be titled “Complex Orders Risk Protections”
Section 17	Rule 1073. Kill Switch
Section 18	Rule 1074. Detection of Loss of Communication
Section 19	Rule 1090. Mass Cancellation of Trading Interest
Section 20	Rule 1092. Nullification and Adjustment of Options Transactions including Obvious Errors
Section 21	Rule 1016. Exchange Sharing of Phlx XL Participant-Designated Risk Settings (re-titled as “Access to and Conduct on Phlx”)
Section 22	Rule 1097. Limitations on Order Entry.
Section 23	Rule 1070. Data Feeds and Trade Information
Section 24	Rule 128. Price of Execution Binding
Section 25	Reserved
Section 26	Rule 1082(a)(ii)(C) to be titled “Message Traffic Mitigation”
Section 27	Rule 652. Limitation of Exchange Liability and Reimbursement of Certain Expenses
Section 28	Reserved

#### Options 4

The Exchange proposes to relocate rules within Options 4 Options Listing Rules

as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1007. Designation Of Securities
Section 2	Rule 1008. Rights And Obligations Of Holders And Writers
Section 3	Rule 1009. Criteria for Underlying Securities/Rule 1011. Option Contracts To Be Traded
Section 4	Rule 1010. Withdrawal of Approval of Underlying Securities or Options
Section 5	Rule. Series of Options Open for Trading
Section 6	Reserved
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved
Section 10	Rule 99. Backup Trading Arrangements
Section 11	Rule 1057. U.S. Dollar-Settled Foreign Currency Option Closing Settlement Value

Rule text within current Commentary .01(6) of Rule 1010, which provides, "...provided, however, that in the case of a Restructure Security approved for options listing and trading under paragraph (d) of Commentary .05 under Rule 1009, such trading volume requirements must be satisfied based on the trading volume history of the Restructure Security."

#### Options 4A

The Exchange proposes to relocate rules within new proposed Options 4A, which is proposed to be titled "Options Index Rules" as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1000A. Applicability and Definitions (paragraph (a))

Section 2	Rule 1000A. Applicability and Definitions (paragraph (b))
Section 3	Rule 1009A. Designation of the Index
Section 4	Reserved.
Section 5	Rule 1100A. Dissemination of Information
Section 6	Rule 1001A. Position Limits
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved
Section 10	Rule 1002A. Exercise Limits
Section 11	Reserved
Section 12	Rule 1101A. Terms of Option Contracts
Section 13	Reserved
Section 14	Reserved
Section 15	Rule 1042A. Exercise of Option Contracts
Section 16	Reserved
Section 17	Rule 1006A. Other Restrictions on Options Transactions and Exercises
Section 18	Rule 1047A. Trading Rotations, Halts or Reopenings
Section 19	Rule 1102A. Limitation of Exchange Liability
Section 20	Rule 1105A. Standard & Poor's® Index
Section 21	Rule 1107A. Nasdaq, Inc. Indexes

The Exchange proposes to amend the rule text within Options 4A, Section 18(b) to remove the word “Specialist” and replace that word with “Exchange” and cite to the manual authority within current Rule 1047(b). The Exchange previously removed any



functionality which permitted executions to be manually handled by a specialist.<sup>5</sup> An Options Exchange Official determines a manual trading halt.

### Options 4B

The Exchange proposes a new Options 4B, titled “Options on Treasury Securities.”

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1000D. Applicability of 1000D Series - Treasury Securities Options
Section 2	Rule 1001D. Definitions - Treasury Securities Options
Section 3	Rule 1002D. Position Limits - Treasury Securities Options
Section 4	Rule 1003D. Exercise Limits - Treasury Securities Options
Section 5	Rule 1004D. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options
Section 6	Rule 1005D. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options
Section 7	Rule 1006D. Criteria for Securities Underlying Treasury Securities Options
Section 8	Rule 1007D. Withdrawal of Approval of Underlying Treasury Securities or Options
Section 9	Rule 1008D. Terms of Treasury Securities Options
Section 10	Rule 1009D. Series of Treasury Securities Options Open for Trading
Section 11	Rule 1010D. Days and Hours of Business of Treasury Securities Options
Section 12	Rule 1011D. Trading Rotations - Treasury Securities Options
Section 13	Rule 1012D. Trading Halts and Suspension of Trading, Obvious and Catastrophic Errors - Treasury Securities Options

<sup>5</sup> Manual execution by a specialist could previously occur in AUTOM, a prior exchange system. Specialist manual handling is obsolete. AUTOM and AUTO-X were replaced by Phlx XL, which is now defined as “System”. See Securities Exchange Act Release No. 50100 (July 27, 2004), (August 3, 2004) (SR-Phlx-2003-59).

Section 14	Rule 1013D. Minimum Increment and Meaning of Premium Bids and Offers for Treasury Securities Options
Section 15	Rule 1014D. Specialist and Registered Option Trader Obligations and Electronic Trading - Treasury Securities Options
Section 16	Rule 1015D. Accommodation Trading - Treasury Securities Options
Section 17	Rule 1016D. Reconciliation of Unmatched Trades - Treasury Securities Options
Section 18	Rule 1018D. Limit Book for Treasury Securities Options
Section 19	Rule 1019D. Bid / Ask Differentials - Treasury Securities Options
Section 20	Rule 1020D. Allocation of Exercise Assignment Notices - Treasury Securities Options
Section 21	Rule 1021D. Delivery and Payment - Treasury Securities Options
Section 22	Rule 1022D. Margin Requirements - Treasury Securities Options
Section 23	Rule 1023D. Furnishing of Books, Records and Other Information - Treasury Securities Options
Section 24	Rule 1024D. Communication Links - Treasury Securities Options
Section 25	Rule 1025D. Doing Business With the Public - Treasury Securities Options

### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets” and relocate rules within Options 5 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1083. Order Protection; Locked and Crossed Markets
Section 2	Rule 1084. Order Protection
Section 3	Rule 1086. Locked and Crossed Markets
Section 4	Rule 1093. Away Markets and Order Routing (re-titled “Order Routing”)
Section 5	Rule 1091. Cancellation of Orders and Error Account

Options 6

The Exchange proposes rename Options 6 from “Order Protection and Locked and Cross Markets” to “Options Trade Administration” and relocate rules within Options 6 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1037. Authorization to Give Up
Section 2	Rule 1052. Responsibility Of Clearing Members For Exchange Options Transactions
Section 3	Rule 1051. General Comparison And Clearance Rule
Section 4	Reserved
Section 5	Rule 1058. Transfer of Positions
Section 6	Rule 1045. Off-Exchange RWA Transfers
Section 7	Rule 1059. In-Kind Exchange of Options Positions and ETF Shares
Section 8	Rule 1046. Clearing Arrangements
Section 9	Rule 1048. Stock Transfer Tax
Section 10	Rule 1053. Filing Of Trade Information
Section 11	Rule 1054. Verification Of Trades And Reconciliation Of Uncompared Trades
Section 12	Rule 1055. Reporting Of Compared Trades To Options Clearing Corporation
Section 13	Rule 1056. Maintaining Office And Filing Signatures

Options 6A

The Exchange proposes to relocate rules within new proposed Options 6A titled “Closing Transactions” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
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Section 1	Rule 1041. Options Contracts Of Suspended Members
Section 2	Rule 1040. Failure To Pay Premium

Options 6B

The Exchange proposes to relocate rules within new proposed Options 6B titled “Exercises and Deliveries” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1042. Exercise Of Equity Option Contracts
Section 2	Rule 1043. Allocation of Exercise Notices
Section 3	Rule 1044. Delivery and Payment

Options 6C

The Exchange proposes to relocate rules within new proposed Options 6C titled “Margins” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Reserved
Section 3	Rule 721. Proper and Adequate Margin
Section 4	Reserved
Section 5	Reserved
Section 6	Reserved
Section 7	Rule 723. Prohibition on Free-Riding in Cash Accounts

Options 6D

The Exchange proposes to relocate rules within new proposed Options 6D titled “Net Capital Requirements” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 703. Financial Responsibility and Reporting
Section 2	Reserved
Section 3	Reserved
Section 4	Reserved

Options 6E

The Exchange proposes to relocate rules within new proposed Options 6E titled “Records, Reports and Audits” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 760. Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Rule 1003. Reporting Of Options Positions
Section 3	Reserved
Section 4	Rule 712. Independent Audit
Section 5	Rule 785. Automated Submission of Trading Data
Section 6	Reserved
Section 7	Rule 980. Regulatory Services Agreements
Section 8	Reserved
Section 9	Reserved

The commentary section in Rule 760 has been relocated to Options 6E, Section 1(b).

Options 7

The Exchange proposes to relocate Rule 607 titled “Covered Sales Fee to Options 7, Options Pricing, at new proposed Section 12.<sup>6</sup>

Options 8

Rule 110, “Bids and Offers –Manners, ”Rule 119, “Precedence of Highest Bid” and Rule 120, “Precedence of Offers at Same Price” are being relocated within the Supplementary Material to Options 8, Section 24, “Bids and Offers – Premium”.

The Exchange proposes to remove references to Rule 723 as this rule no longer exists. The Exchange also proposes to remove obsolete rule text at the end of Options 8, Section 39 at C-2, Options Floor Based Management System, which provides, “*The Exchange anticipates that it will implement the Snapshot feature referenced herein and described further in Options 8, Section 28(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.*”

Options 9

The Exchange proposes to relocate rules within new proposed Options 9 titled “Business Conduct” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 707. Conduct Inconsistent with Just and Equitable Principles of Trade

<sup>6</sup> Rule 607 is both an options and equities rule and is therefore being replicated in both Equity 7 and Options 7.

Section 2	Reserved
Section 3	Reserved
Section 4	Reserved
Section 5	Rule 708. Acts Detrimental to the Interest or Welfare of the Exchange
Section 6	Reserved
Section 7	Reserved
Section 8	Reserved
Section 9	Reserved
Section 10	Reserved
Section 11	Reserved
Section 12	Reserved
Section 13	Rule 1001. Position Limits
Section 14	Reserved
Section 15	Rule 1002. Exercise Limits
Section 16	Reserved
Section 17	Rule 1004. Liquidation Of Positions
Section 18	Rule 1005. Limit On Uncovered Short Positions
Section 19	Rule 1006. Other Restrictions on Exchange Options Transactions and Exercises
Section 20	Reserved
Section 21	Rule 757. Anti-Money Laundering Compliance Program
Section 22	Reserved
Section 23	Reserved

Section 24	Rule 1050. Violation Of By-Laws And Rules Of Options Clearing Corporation
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Options 10

The Exchange proposes to relocate rules within new proposed Options 10 titled “Doing Business with the Public” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Rule 1024. Conduct of Accounts for Options Trading subparagraph (a) (re-titled “Registration of Options Principals”)
Section 3	Reserved
Section 4	Reserved
Section 5	Reserved
Section 6	Rule 1024. Conduct of Accounts for Options Trading subparagraph (b) (re-titled “Opening of Accounts”)
Section 7	Rule 1025. Supervision of Accounts
Section 8	Rule 1026. Suitability
Section 9	Rule 1027. Discretionary Accounts
Section 10	Rule 1028. Confirmations and Complaints subparagraph (a) (re-titled “Confirmations to Customers”)
Section 11	Rule 1032. Statements of Accounts
Section 12	Reserved
Section 13	Rule 1029. Delivery of Options Disclosure Documents
Section 14	Rule 742. Restrictions on Pledge of Customers' Securities
Section 15	Reserved
Section 16	Reserved



Section 17	Reserved
Section 18	Reserved
Section 19	Reserved
Section 20	Rule 1049. Options Communications
Section 21	Reserved
Section 22	Rule 1028. Confirmations and Complaints subparagraph (b) (re-titled “Customer Complaints”)
Section 23	Rule 762. Telemarketing
Section 24	Rule 1030. Transactions With Issuers
Section 25	Rule 1031. Restricted Stocks

The Exchange proposes to reserve Options 10, Sections 24 and 25. The Commentary section in Phlx Rules 1027 is being relocated to Section (f) within Options 10, Section 9. The Commentary section in Phlx Rules 1028 is being relocated to Section (f) within Options 10, Section 22.

#### Options 11

Finally, the Exchange proposes to relocate the Options Minor Rule Violations into Options 11 titled “Minor Rule Plan Violations” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	A-1 Specialist as ROT
Section 2	F-1 Option Quote Parameters
Section 3	F-2 Failure to Comply with an Exchange Inquiry
Section 4	F-3 Affiliations
Section 5	F-4 Unusual Market Conditions

Section 6	F-5 Supervisory Procedures Relating to ITSFEA
Section 7	F-6 Minor Infractions of Position/Exercise Limits and Hedge Exemptions
Section 8	F-7 Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts
Section 9	F-8 Options Exchange Official Rulings
Section 10	F-9 Failure to Provide Notification of Changes in Business Operations
Section 11	F-10 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD
Section 12	F-11 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts
Section 13	G-1 Index Option Exercise Advices

### PSX Rules<sup>7</sup>

Rule 133, “Trading Halts Due to Extraordinary Market Volatility” is being relocated to new PSX Rule 3101 as this rule is solely an equities rule. Rule 652, “Limitation of Exchange Liability and Reimbursement of Certain Expenses” is being relocated into new PSX Rule 3102.<sup>8</sup> Rule 103, “Dealings on the Exchange – Securities” is being relocated to new PSX Rule 3400. Rule 112, “Bids and Offers – “When Issued”” is being relocated to new PSX Rule 3401. Rule 128, “Price of Execution Binding” is being relocated to new PSX Rule 3402.<sup>9</sup> Rule 274, “Payment on Delivery—Collect on

<sup>7</sup> PSX Rule 3202 currently notes rules which are incorporated by reference into PSX Rules. The rules within this section which are being relocated are currently part of the PSX Rules today.

<sup>8</sup> Rule 652 is also being replicated into Options 3, Section 27 as this rule applies to both equities and options.

<sup>9</sup> Rule 128 is being replicated within Options 3, Section 24 and also within the PSX Rules as this rule applies to both equities and options.

Delivery” is being relocated to new PSX Rule 3403.<sup>10</sup> Rule 279, “Book-Entry Settlement” is being relocated to new PSX Rule 3404. Rule 431, “Ex-dividend, Ex-rights” is being relocated into new PSX Rule 3405. Rule 432, “Ex-warrants” is being relocated into new PSX Rule 3406. Rule 433, “Buyer Entitled to Dividend, etc.” is being relocated into new PSX Rule 3407. Rule 434, “Claims for Dividend, etc.” is being relocated into new PSX Rule 3408. Rule 451, “Taking or Supplying Securities Named in Order” is being relocated into new PSX Rule 3409. Rule 452, “Limitations on Members' Trading Because of Customers' Orders” is being relocated into new PSX Rule 3410.<sup>11</sup> Rule 453, “Successive Transactions by Members” is being relocated into new PSX Rule 3411. Rule 455, “Short Sales” is being relocated into new PSX Rule 3412. Rule 721, “Proper and Adequate Margin” is being relocated into new PSX Rule 3413.<sup>12</sup> Rule 723, “Prohibition on Free-Riding in Cash Accounts” is being relocated into new PSX Rule 3414.<sup>13</sup> Rule 703, “Financial Responsibility and Reporting” is being relocated into new PSX Rule 3500.<sup>14</sup> Rule 712, “Independent Audit” is being relocated into new PSX Rule

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<sup>10</sup> The Exchange is eliminating rule text related to the effective date of the rule. This language is obsolete. The Supplementary Material is being relocated to the main body of the Rule.

<sup>11</sup> Rule 452, “Limitations on Members' Trading Because of Customers' Orders” is also being relocated into Options 8, Section 17. The Supplementary Material is being relocated to the main body of the Rule.

<sup>12</sup> Rule 721 is being replicated within Options 6C, Section 3 and also within the PSX Rules as this rule applies to both equities and options.

<sup>13</sup> Rule 723 is being replicated within Options 6C, Section 7 and also within the PSX Rules as this rule applies to both equities and options.

<sup>14</sup> Rule 703 is being replicated within Options 6D, Section 1 and also within the PSX Rules as this rule applies to both equities and options.

3501.<sup>15</sup> Rule 785, “Automated Submission of Trading Data” is being relocated into new PSX Rule 3502.<sup>16</sup> Rule 707, “Conduct Inconsistent with Just and Equitable Principles of Trade” is being relocated into Rule 3503.<sup>17</sup> Rule 708, “Acts Detrimental to the Interest or Welfare of the Exchange” is being relocated into Rule 3504.<sup>18</sup> Rule 742, “Restrictions on Pledge of Customers’ Securities” is being relocated into new PSX Rule 3505.<sup>19</sup> Rule 757, “Anti-Money Laundering Compliance Program” is being relocated into new PSX Rule 3506.<sup>20</sup> Rule 762, “Telemarketing” is being relocated into new PSX Rule 3507.<sup>21</sup> Rule 980, “Regulatory Services Agreements” is being relocated into new PSX Rule 3600.<sup>22</sup>

The Exchange also proposes to amend PSX Rule 3202 to remove rules that: (1) have been relocated into a general section and are therefore applicable to equities; (2) have been relocated into the PSX Rules or Equity 7; (3) which are reserved rules; and (4)

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<sup>15</sup> Rule 712 is being replicated within Options 6E, Section 4 and also within the PSX Rules as this rule applies to both equities and options.

<sup>16</sup> Rule 785 is being replicated within Options 6E, Section 5 and also within the PSX Rules as this rule applies to both equities and options.

<sup>17</sup> Rule 707 is being replicated within Options 9, Section 1 and also within the PSX Rules as this rule applies to both equities and options.

<sup>18</sup> Rule 708 is being replicated within Options 9, Section 5 and also within the PSX Rules as this rule applies to both equities and options.

<sup>19</sup> Rule 742 is being replicated within Options 10, Section 14 and also within the PSX Rules as this rule applies to both equities and options.

<sup>20</sup> Rule 757 is being replicated within Options 9, Section 21 and also within the PSX Rules as this rule applies to both equities and options.

<sup>21</sup> Rule 762 is being replicated within Options 10, Section 23 and also within the PSX Rules as this rule applies to both equities and options.

<sup>22</sup> Rule 980 is being replicated within Options 6E, Section 7 and also within the PSX Rules as this rule applies to both equities and options.

remove references to Rule 623 (Fingerprinting), Rule 722 (Miscellaneous Securities Margin Accounts) and Rule 772 (Trading for Joint Account) as these rules do not exist in the Phlx Rulebook.

### Equity Titles

The Exchange proposes to amend the current titles of Equity 2, 3, 4 and 7. The Exchange proposes to rename Equity 2, from “Equity Trading Rules” to “Equity Market Participants.” The Exchange proposes to rename Equity 3 from “Equity Market Participants” to “Equity Trading Rules.” The Exchange proposes to rename Equity 4 from “Equity Listing Rules” to “Limit Up-Limit Down”. Finally, the Exchange proposes to reserve Equity 6 which is currently titled “Limit Up-Limit Down.”

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>23</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>24</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules by relocating its Rules into the new Rulebook shell together with other rules which have already been relocated. The Exchange’s proposal is consistent with the Act and will protect investors and the public interest by harmonizing its rules, where applicable, across Nasdaq markets so that members can readily locate rules which cover similar topics. The relocation and harmonization of the Phlx Rules is part of the Exchange’s continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The

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<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

Exchange believes that the placement of the Phlx Rules into their new location in the shell will facilitate the use of the Rulebook by members. Specifically, the Exchange believes that market participants that are members of more than one Nasdaq market will benefit from the ability to compare Rulebooks.

The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The renumbering, re-lettering, deleting reserved rules, amending cross-references and other minor technical changes will bring greater transparency to Phlx's Rules. The Exchange intends to file other rule change to relocate Affiliated Exchange Rulebooks to relocate corresponding rules into the same location in each Rulebook for ease of reference. The Exchange believes its proposal will benefit investors and the general public by increasing the transparency of its Rulebook and promoting easy comparisons among the various Nasdaq Rulebooks.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the Rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to Phlx's Rules.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>25</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>26</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>26</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2020-03 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2020-03. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.



All submissions should refer to File Number SR-Phlx-2020-03 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**[Nasdaq PHLX Rules  
RULES OF THE EXCHANGE****Definitions (Rule 1)****Rule 1. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Directors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

**Act, Exchange Act or Securities Exchange Act**

(a) The term "Act", "Exchange Act" or "Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

**Associated Person or Person Associated with a Member Organization**

(b) The term "associated person" or "person associated with a member organization" means any partner, officer, director, or branch manager of an Exchange member organization or applicant (or person occupying a similar status or performing similar functions), or any person directly or indirectly controlling, controlled by, or under common control with such member organization or applicant, or any employee of such member organization or applicant, except that any person associated with a member organization or applicant whose functions are solely clerical or ministerial shall not be included in the meaning of such term for purposes of the Exchange Rules. For purposes of the 8000 and 9000 Rule Series, the term "person associated with a member organization" or "associated person" shall have the same meaning as the term "persons associated with a member" or "associated person of a member," respectively, as provided in Section 3(a)(21) of the Exchange Act.

**Board or Board of Directors**

(c) The term "Board" or "Board of Directors" shall mean the Board of Directors of Nasdaq PHLX LLC.

**By-Laws**

(d) The term "By-Laws" means the By-Laws of Nasdaq PHLX LLC.

**Clearing Firm**

(e) The term "clearing firm" shall mean a member organization that meets the requirements of Rule 165(c).

**Code of Procedure**

(f) The term "Code of Procedure" means the procedural rules contained in the Rule 9000 Series.

**Commission or SEC**

(g) The terms "Commission" or "SEC" mean the United States Securities and Exchange Commission.

**Delivery**

(h) The term "delivery" means the delivery of securities on Exchange contracts, unless otherwise stated.

**Director**

(i) The term "Director" shall mean the Persons elected or appointed to the Board of Directors from time to time in accordance with the LLC Agreement and these By-Laws, in their capacity as managers of the Exchange.

**Exchange**

(j) The term "Exchange" shall mean Nasdaq PHLX LLC.

**Exchange Review Council**

(k) The term "Exchange Review Council" means the committee authorized and directed to act for the Board of Directors of the Exchange in a manner consistent with the Exchange Rules with respect to (1) an appeal or review of a disciplinary proceeding; (2) a statutory disqualification decision; (3) a review of a membership proceeding; (4) a review of an offer of settlement, a letter of acceptance, waiver, and consent, and a minor rule violation plan letter; (5) the exercise of exemptive authority; (6) an appeal of proceedings involving Exchange Rules Options 8, Section 35, 1092, 3219, 3220, and 3312; and (7) such other proceedings or actions authorized by the Exchange Rules.

**Executive Representative**

(l) The term "Executive Representative" shall mean the executive representative who shall represent, vote, and act for the Exchange Member in all the affairs of the Exchange; provided, however, that other representatives of a Exchange Member may also serve on the Exchange Board or committees of the Exchange or otherwise take part in the affairs of the Exchange.

**FINRA**

(m) The term "FINRA" shall mean the Financial Industry Regulatory Authority, Inc. and its affiliates.

(n) Reserved.

### **Good Standing**

(o) The term "Good Standing" shall refer to a member organization who is not in violation of any of its agreements with the Exchange or any of the provisions of the Rules or By-Laws of the Exchange, and who has maintained all of the conditions for approval as a member organization.

(p) Reserved.

### **Investment Banking or Securities Business**

(q) The term "investment banking or securities business" means the business, carried on by a broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer, or of purchasing and selling securities upon the order and for the account of others.

### **Member**

(r) The term "member" shall mean a permit holder which has not been terminated in accordance with the By-Laws and these Rules of the Exchange. A member is a natural person and must be a person associated with a member organization. Any references in the rules of the Exchange to the rights or obligations of an associated person or person associated with a member organization also includes a member.

### **Member Organization**

(s) The term "member organization" shall mean a corporation, partnership (general or limited), limited liability partnership, limited liability company, business trust or similar organization, transacting business as a broker or a dealer in securities and which has the status of a member organization by virtue of (i) admission to membership given to it by the Membership Department pursuant to the provisions of Rules 900.1 or 900.2 or the By-Laws or (ii) the transitional rules adopted by the Exchange pursuant to Section 6-4 of the By-Laws. References herein to officer or partner, when used in the context of a member organization, shall include any person holding a similar position in any organization other than a corporation or partnership that has the status of a member organization.

### **Membership Department**

(t) The "Membership Department" shall mean the Nasdaq PHLX Membership Department located within the Exchange.

### **Nasdaq Merger**

(u) The term "Nasdaq Merger" shall mean the merger of a wholly owned subsidiary of Nasdaq, Inc., a Delaware corporation, with and into the Exchange, with the Exchange as the surviving corporation, in connection with the acquisition of the Exchange by Nasdaq, Inc.

#### **NMS Stock**

(v) The term "NMS Stock" shall have the same meaning as Rule 600(b)(47) of Regulation NMS.

#### **NSCC**

(w) The term "NSCC" shall mean the National Securities Clearing Corporation.

#### **Non-member**

(x) The term "non-member" includes, with respect to individuals, any person who is not a member and, with respect to entities, any organization that is not a member organization.

#### **Options Exchange Official**

(y) For purposes of these rules, the term "Option Exchange Official" shall mean an Exchange staff member or contract employee designated as such by the Chief Regulatory Officer. A list of individual Options Exchange Officials shall be displayed on the Exchange website. The Chief Regulatory Officer shall maintain the list of Options Exchange Officials and update the website each time a name is added to, or deleted from, the list of Options Exchange Officials. In the event no Options Exchange Official is available to rule on a particular matter, the Chief Regulatory Officer or his/her designee shall rule on such matter.

#### **Permit**

(z) The term "permit" shall mean a permit of any class, series or kind established from time to time by the Board of Directors and denominated as such.

#### **Person**

(aa) The term "person" shall refer to a natural person, corporation, partnership (general or limited), limited liability company, association, joint stock company, trust, trustee of a trust fund, or any organized group of persons whether incorporated or not and a government or agency or political subdivision thereof.

#### **Phlx**

(bb) The term "Phlx" shall refer to Nasdaq PHLX LLC.

#### **Protected Bid, Offer or Quotation**

(cc) The terms "Protected Bid, Offer or Quotation" have the same meaning as rule 600(b)(57) and (58), as appropriate, of Regulation NMS.

### **Protected NBBO**

(dd) The term "Protected NBBO" shall mean the best Protected Bid and the best Protected Offer in a stock.

### **Representative**

(ee) The term "representative" shall have the meaning assigned to it in General 4, Section 1.1220(b)(1).

(ff) Reserved.

### **SEC**

(gg) The term "SEC" shall mean the U.S. Securities and Exchange Commission. Any reference to "Commission" shall also mean the U.S. Securities and Exchange Commission.

### **Securities Act**

(hh) The term "Securities Act" shall mean the Securities Act of 1933, as amended.

### **Security**

(ii) The term "security" or "securities" includes stocks, bonds, notes, certificates of deposit or participation, trust receipts, rights, options contracts, warrants Cash Index Participations and other similar instruments.

### **Stock**

(jj) The term "stock" includes voting trust certificates, certificates of deposit for stocks, rights, warrants, and other securities classified for trading as stocks by the Exchange.

### **Proprietary trading firm**

(kk) The term "proprietary trading firm" for purposes of General 4, Section 1.1210 means a member organization or applicant with the following characteristics:

- (i) The applicant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act.
- (ii) All funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts.

- (iii) The applicant does not, and will not have customers.
- (iv) All principals and representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant.

### **Dealings upon the Exchange (Rules 2—499)**

#### **Rule 52. Fees, Dues and Other Charges**

(a) The Board of Directors shall have the power (i) to establish, assess and levy such fees, dues and other charges (including, without limitation, any extraordinary assessments) upon permit holders, members, member organizations and any other persons using the facilities or services of the Exchange, and upon applicants for and persons being admitted, registered, qualified and/or initiated to any such status, in each case as the Board of Directors may from time to time establish by resolution or in the Rules of the Exchange (which shall be deemed to include any schedule of fees, dues, other charges and penalties as may be in effect from time to time), (ii) to establish rebates, credits and discounts with respect to any of the foregoing, (iii) to establish programs whereby the Exchange shares or permits any person to participate in any identified source of revenues (less any expenses or other charges as the Exchange shall determine) of the Exchange, (iv) to provide for the direct reimbursement to the Exchange of any cost, expense or category thereof, and (v) except insofar as otherwise specified or provided for in the By-Laws, to establish and assess penalties for failure to pay any fees, dues or charges owed to the Exchange, including, without limitation, termination of a permit (which permit may be reissued) and forfeiture of all rights as a member, member organization or permit holder. The Board of Directors may authorize any committee thereof or the Chair of the Board of Directors to exercise any powers of the Board of Directors with respect to the assessment of fees, dues, other charges and penalties authorized in accordance with this Section.

(b) Without limiting the generality of the provisions of the By-Laws, the Board of Directors may, from time to time, fix and impose charges upon members or member organizations, measured by their respective net commissions on transactions effected on the Exchange. Such charges shall be payable at such times and shall be collected in such manner as may be determined by the Board of Directors.

(c) The obligation of members, and member organizations to abide by the provisions of these By-Laws and the Rules of the Exchange shall include, without limitation, the obligation to pay all applicable fees, dues and other charges imposed thereon by these By-Laws or the Rules of the Exchange.

(d) The Board of Directors or their designee may suspend or terminate, after due notice, any permit or rights of any member, member organization or employee thereof using facilities or services of the Exchange, or enjoying any of the privileges therein, who shall not pay dues, fees, other charges, other monies due and owed the Exchange, fines and/or other monetary sanctions in accordance with the Rules of the Exchange.

(e) Subject to the following conditions and procedures, a member or a member organization may pay a regulatory fine via an installment plan:

- (1) The member or member organization must check the installment plan option on the election of payment form included with the offer of settlement.
- (2) The fine under the offer of settlement must be fifty thousand dollars (\$50,000) or more. A fine of less than fifty thousand dollars (\$50,000) is not eligible for the installment plan.
- (3) A down payment of twenty-five percent (25%) or more of the total fine must be submitted with the signed offer of settlement.
- (4) An installment package, including a promissory note and payment schedule, will be mailed to the member or member organization upon receipt of the down payment, as required in paragraph (3) above.
- (5) An executed (signed and notarized) promissory note for the unpaid balance of the fine must be returned with the first installment payment.
- (6) The term of the installment plan shall not exceed four (4) years after the execution of the offer of settlement. The member or member organization may elect monthly or quarterly payments.

**Rule 56. Effect of Suspension or Termination on Payment of Fees**

The suspension or termination of a permit shall not relieve the holder thereof or its member organization from any obligation to pay any applicable dues, fees or other charges billed or accrued through the time of such suspension or termination, and any fines or penalties assessed before or after the time of such suspension or termination.

**Rule 57. Members' Contracts**

All contracts of a member of the Exchange or a member organization with any member of the Exchange or with any member organization for the purchase, sale, borrowing, loaning or hypothecation of securities, or for the borrowing, loaning, or payment of money, whether occurring upon the Exchange or elsewhere, are members' contracts.

**Rule 58. Exchange Contracts**

An exchange contract is:

- (a) a member's contract made on the Exchange; and
- (b) a member's contract not made on the Exchange, unless made subject to the rules of another exchange, or unless the parties thereto have expressly agreed that the same shall not be an exchange contract.

**Rule 59. Deliveries through Registered Clearing Agencies**

Clearance and settlement of transactions effected on the Exchange shall be made through one or more registered clearing agencies providing such services unless it is otherwise agreed by the parties to the transaction.



**Rule 62. Disapproval of Business**

Whenever it shall appear to the Board of Directors that a member has formed a business entity or established an office or headquarters or is individually or through any member of his or her organization interested in a business entity, or has formed any business connection, whereby the interest or good repute of the Exchange may suffer, the Board of Directors may require the dissolution of any such business entity or the discontinuance of such business, office or headquarters or business connection, as the case may be.

**Rule 63. Effect of Suspension or Termination**

When a member's permit is suspended under the provisions of this Rule, such member shall be deprived during the term of such suspension of all rights and privileges of a member but he or she may be proceeded against by the Exchange for any offense other than that for which such suspension was imposed.

The termination of any permit or rights and privileges of a member shall terminate all rights and privileges (but not the obligations) arising out of his possession of a permit.

**Rule 64. Office Vacated by Suspension or Termination**

Upon the suspension or termination by the Exchange of any permit or the rights and privileges of a member, whether for insolvency or otherwise, any office in the Exchange held by him shall thereupon become vacant.

**Rule 99. Backup Trading Arrangements**

(a) *Phlx is Disabled Exchange.*

(i) Exchange ("Phlx") Exclusively Listed Options.

(A) For purposes of this Rule 99, the term "exclusively listed option" means an option that is listed exclusively by an exchange (because such exchange has an exclusive license to use, or has proprietary rights in, the interest underlying the option).

(B) The Phlx may enter into arrangements with one or more other exchanges (each a "Backup Exchange") to permit the Phlx and its members and associated persons and other personnel to use a portion of the Backup Exchange's facilities to conduct the trading of some or all of the Phlx's exclusively listed options in the event that the functions of the Phlx are, or are threatened to be, severely and adversely affected by an emergency or extraordinary circumstances (a "Disabling Event"). Such options shall trade as listings of Phlx. The facility of the Backup Exchange used by the Phlx for this purpose will be deemed to be a facility of the Phlx.

(C) Trading of Phlx exclusively listed options shall be conducted in accordance with the rules of the Backup Exchange, except that such trading shall be subject to Phlx Rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements, and position limits. In addition, the Phlx and the Backup Exchange may agree that other Rules of the Phlx will apply to such trading. The Phlx and the Backup Exchange have agreed to communicate to their respective

members which rules apply in advance of trading. The Backup Exchange rules that govern trading on Phlx's facility at the Backup Exchange shall be deemed to be Phlx Rules for purposes of such trading.

- (D) The Backup Exchange has agreed to perform the related regulatory functions with respect to trading of Phlx exclusively listed options on Phlx's facility at the Backup Exchange, in each case except as Phlx and the Backup Exchange may specifically agree otherwise. The Backup Exchange and Phlx have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of Phlx exclusively listed options on Phlx's facility at the Backup Exchange. Phlx shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to Phlx's facility at the Backup Exchange.
- (E) If the Backup Exchange is unable to accommodate all Phlx members that desire to trade on Phlx's facility at the Backup Exchange pursuant to paragraph (a)(i)(A), the Phlx may determine which members shall be eligible to trade at that facility. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the member is a specialist in the applicable product(s), the number of contracts traded by the member or member organization in the applicable product(s), market performance, and other factors relating to a member's contribution to the market in the applicable product(s) during a specific period.
- (F) Members of the Backup Exchange shall not be authorized to trade in any Phlx exclusively listed options, except that (i) Phlx may deputize willing floor brokers of the Backup Exchange as temporary Phlx members to permit them to execute orders as brokers in Phlx exclusively options traded on Phlx's facility at the Backup Exchange; and (ii) the Backup Exchange has agreed that it will, at the instruction of Phlx, select members of the Backup Exchange that are willing to be deputized by Phlx as temporary Phlx members authorized to trade Phlx exclusively listed options on Phlx's facility at the Backup Exchange for such period of time following a Disabling Event as Phlx determines to be appropriate, and Phlx may deputize such members of the Backup Exchange as temporary Phlx members for that purpose.
- (ii) Phlx Singly Listed Options.
- (A) For purposes of this Rule 99, the term "singly listed option" means an option that is not an "exclusively listed option" but that is listed by an exchange and not by any other national securities exchange.
- (B) The Exchange may enter into arrangements with a Backup Exchange under which the Backup Exchange will agree, in the event of a Disabling Event, to list for trading singly listed options that are then singly listed only by the Phlx and not by the Backup Exchange. Any such options listed by the Backup Exchange shall trade on the Backup Exchange and in accordance with the rules of the Backup Exchange. Such options shall be traded by members of the Backup Exchange and by Phlx members selected by

the Phlx to the extent the Backup Exchange can accommodate Phlx members in the capacity of temporary members of the Backup Exchange. If the Backup Exchange is unable to accommodate all Phlx members that desire to trade at the Backup Exchange pursuant to paragraph (a)(i)(A), Phlx may determine which members shall be eligible to trade at the Backup Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the member is a specialist in the applicable product(s), the number of contracts traded by the member or specialist unit in the applicable product(s), market performance, and other factors relating to a member's contribution to the market in the applicable product(s).

Any Phlx member who is granted temporary access to the Backup Exchange pursuant to this paragraph shall only be permitted (i) to act in those Backup Exchange capacities that are authorized by the Backup Exchange and that are comparable to capacities in which the temporary member has been authorized to act on the Phlx and (ii) to trade in those options in which the temporary member is authorized to trade on the Phlx.

(C) Any options listed by the Backup Exchange pursuant to paragraph (a)(ii)(B) that does not satisfy the standard listing and maintenance criteria of the Backup Exchange will be subject, upon listing by the Backup Exchange, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in the rules of the Backup Exchange).

(b) *Phlx is Backup Exchange.*

(i) Disabled Exchange Exclusively Listed Options.

(A) The Exchange may enter into arrangements with one or more other exchanges (each a "Disabled Exchange") to permit the Disabled Exchange and its members to use a portion of the Phlx's facilities to conduct the trading of some or all of the Disabled Exchange's Exclusively Listed Securities in the event of a Disabling Event. The facility of the Phlx used by the Disabled Exchange for this purpose will be deemed to be a facility of the Disabled Exchange.

(B) Trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx shall be conducted in accordance with Phlx Rules, except that (1) such trading shall be subject to the Disabled Exchange's rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements, and position limits, and (2) members of the Disabled Exchange that are trading on the Disabled Exchange's facility at Phlx (not including Phlx members who become temporary members of the Disabled Exchange pursuant to paragraph (b)(i)(D)) will be subject to the rules of the Disabled Exchange governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange. In addition, the Disabled Exchange and Phlx may agree that other Disabled Exchange rules will apply to such trading. The Disabled Exchange and Phlx have

agreed to communicate to their respective members which rules apply in advance of trading.

- (C) Phlx will perform the related regulatory functions with respect to trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx, in each case except as the Disabled Exchange and Phlx may specifically agree otherwise. Phlx and the Disabled Exchange have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx. The Disabled Exchange has agreed that it shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to the Disabled Exchange's facility at Phlx.
- (D) Phlx members shall not be authorized to trade in any exclusively listed options of the Disabled Exchange, except that: (1) the Disabled Exchange may deputize willing Phlx floor brokers as temporary members of the Disabled Exchange to permit them to execute orders as brokers in exclusively listed options of the Disabled Exchange traded on the facility of the Disabled Exchange at Phlx; and (2) at the instruction of the Disabled Exchange, the Phlx shall select Phlx members that are willing to be deputized by the Disabled Exchange as temporary members of the Disabled Exchange authorized to trade the Disabled Exchange's exclusively listed options on the facility of the Disabled Exchange at the Phlx for such period of time following a Disabling Event as the Disabled Exchange determines to be appropriate, and the Disabled Exchange may deputize such Phlx members as temporary members of the Disabled Exchange for that purpose.

(ii) Disabled Exchange Singly Listed Options.

- (A) The Phlx may enter into arrangements with a Disabled Exchange under which the Phlx will agree, in the event of a Disabling Event, to list for trading options that are then singly listed only by the Disabled Exchange and not by the Phlx. Any such options listed by the Phlx shall trade on the Phlx and in accordance with Phlx Rules. Such options shall be traded by Phlx members and by members of the Disabled Exchange selected by the Disabled Exchange to the extent the Phlx can accommodate members of the Disabled Exchange in the capacity of temporary members of Phlx. Any member of a Disabled Exchange granted temporary access to conduct business on the Phlx under this paragraph shall only be permitted (i) to act in those Phlx capacities that are authorized by the Phlx and that are comparable to capacities in which the temporary member has been authorized to act on the Disabled Exchange and (ii) to trade in those options in which the temporary member is authorized to trade on the Disabled Exchange. The Phlx may allocate such options to a Phlx specialist in advance of a Disabling Event, without utilizing the allocation process under Phlx Rule 506, to enable the Phlx to quickly list such options upon the occurrence of a Disabling Event.

(B) Any class of options listed by the Phlx pursuant to paragraph (b)(ii)(A) that does not satisfy the listing and maintenance criteria under Phlx Rules 1009 and 1010 will be subject, upon listing by the Phlx, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in Phlx Rules).

(c) *Member Obligations.*

(i) Temporary Members of a Disabled Exchange

(A) A Phlx member acting as a temporary member of the Disabled Exchange pursuant to paragraph (b)(i)(D) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of the Disabled Exchange at Phlx to the extent applicable during the period of such trading. Additionally, (1) such Phlx member shall be deemed to have satisfied, and the Disabled Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange, including all dues, fees and charges imposed generally upon members of the Disabled Exchange based on their status as such; (2) such Phlx member shall have none of the rights of a member of the Disabled Exchange except the right to conduct business on the facility of the Disabled Exchange at Phlx to the extent described in this Rule; (3) the member organization associated with such Phlx member, if any, shall be responsible for all obligations arising out of that Phlx member's activities on or relating to the Disabled Exchange; and (4) the clearing member of such Phlx member shall guarantee and clear the transactions of such Phlx member on the Disabled Exchange.

(B) A member of a Backup Exchange acting in the capacity of a temporary member of Phlx pursuant to paragraph (a)(i)(F) shall be subject to, and obligated to comply with, the Rules that govern the operation of the facility of Phlx at the Backup Exchange, including Phlx Rules to the extent applicable during the period of such trading. Additionally, (1) such temporary member shall be deemed to have satisfied, and Phlx will waive specific compliance with, Rules governing or applying to the maintenance of a person's or a firm's status as a member of Phlx, including all dues, fees and charges imposed generally upon Phlx members based on their status as such; (2) such temporary member shall have none of the rights of a Phlx member except the right to conduct business on the facility of Phlx at the Backup Exchange to the extent described in this Rule; (3) the member organization associated with such temporary member, if any, shall be responsible for all obligations arising out of that temporary member's activities on or relating to Phlx; and (4) the clearing member of such temporary member shall guarantee and clear the transactions on Phlx of such temporary member.

(ii) Temporary Members of the Backup Exchange

(A) A Phlx member acting in the capacity of a temporary member of the Backup Exchange pursuant to paragraph (a)(ii)(B) shall be subject to, and obligated to comply

with, the rules of the Backup Exchange that are applicable to the Backup Exchange's own members. Additionally, (1) such Phlx member shall be deemed to have satisfied, and the Backup Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Backup Exchange, including all dues, fees and charges imposed generally upon members of the Backup Exchange based on their status as such, (2) such Phlx member shall have none of the rights of a member of the Backup Exchange except the right to conduct business on the Backup Exchange to the extent described in this Rule; (3) the member organization associated with such Phlx member, if any, shall be responsible for all obligations arising out of that Phlx member's activities on or relating to the Backup Exchange; (4) the clearing member of such Phlx member shall guarantee and clear the transactions of such Phlx member on the Backup Exchange; and (5) such Phlx member shall only be permitted (x) to act in those capacities on the Backup Exchange that are authorized by the Backup Exchange and that are comparable to capacities in which the Phlx member has been authorized to act on Phlx, and (y) to trade in those options in which the Phlx member is authorized to trade on Phlx.

- (B) A member of a Disabled Exchange acting in the capacity of a temporary member of Phlx pursuant to paragraph (b)(ii)(A) shall be subject to, and obligated to comply with, Phlx Rules that are applicable to Phlx's own members. Additionally, (1) such temporary member shall be deemed to have satisfied, and Phlx will waive specific compliance with, Rules governing or applying to the maintenance of a person's or a firm's status as a member of Phlx, including all dues, fees and charges imposed generally upon Phlx members based on their status as such; (2) such temporary member shall have none of the rights of a Phlx member except the right to conduct business on Phlx to the extent described in this Rule; (3) the member organization associated with such temporary member, if any, shall be responsible for all obligations arising out of that temporary member's activities on or relating to Phlx; (4) the clearing member of such temporary member shall guarantee and clear the transactions of such temporary member on the Phlx; and (5) such temporary member shall only be permitted (x) to act in those Phlx capacities that are authorized by Phlx and that are comparable to capacities in which the temporary member has been authorized to act on the Disabled Exchange, and (y) to trade in those option classes in which the temporary member is authorized to trade on the Disabled Exchange.

*(d) Member Proceedings.*

- (i) If the Phlx initiates an enforcement proceeding with respect to the trading during a backup period of the singly or multiply listed options of the Disabled Exchange by a temporary member of the Phlx or the exclusively listed options of the Disabled Exchange by a member of the Disabled Exchange (other than a Phlx member who is a temporary member of the Disabled Exchange), and such proceeding is in process upon the conclusion of the backup period, the Phlx may transfer responsibility for such proceeding to the Disabled Exchange following the conclusion of the backup period. Arbitration of any disputes with respect to any trading during a backup period of singly or multiply listed options of the Disabled Exchange or of exclusively listed options of

the Disabled Exchange on the Disabled Exchange's facility at the Phlx will be conducted in accordance with Phlx Rules, unless the parties to an arbitration agree that it shall be conducted in accordance with the rules of the Disabled Exchange.

- (ii) If the Backup Exchange initiates an enforcement proceeding with respect to the trading during a backup period of Phlx singly or multiply listed options by a temporary member of the Backup Exchange or Phlx exclusively listed options by a Phlx member (other than a member of the Backup Exchange who is a temporary member of the Phlx), and such proceeding is in process upon the conclusion of the backup period, the Backup Exchange may transfer responsibility for such proceeding to the Phlx following the conclusion of the backup period. Arbitration of any disputes with respect to any trading during a backup period of Phlx singly or multiply listed options on the Backup Exchange or of Phlx exclusively listed options on the facility of the Phlx at the Backup Exchange will be conducted in accordance with the rules of the Backup Exchange, unless the parties to an arbitration agree that it shall be conducted in accordance with Phlx Rules.

*(e) Member Preparations.*

Phlx members are required to take appropriate actions as instructed by the Exchange to accommodate Phlx's backup trading arrangements.

**Rule 101. Hours of Business**

Except as otherwise ordered by the Board of Directors, the Exchange shall be open for the entrance of members upon every business day, at 8:00 A.M. Eastern Time. The Exchange shall conform with daylight savings time when effective in the City of Philadelphia. The Board of Directors shall determine by resolution the hours during which business may be transacted on the Exchange. The Board of Directors has resolved that no option series shall freely trade after 4:00 P.M. Eastern Time, except that broad-based (market) index options shall freely trade until 4:15 P.M. Eastern Time each business day, as specified in Rule 1101A, Commentary .01. The Board of Directors has resolved that except under unusual conditions as may be determined by the Board (or the Exchange official or officials designated by the Board) foreign currency option trading sessions shall be conducted at such times as the Board of Directors shall specify between 6:00 P.M. Eastern Time Sundays and 3:00 P.M. Eastern Time Fridays, provided that U.S. dollar-settled foreign currency options shall trade during the same hours as narrow-based index options.

••• *Supplementary Material:* -----

**.01 Options Trading after 4:00 P.M. Eastern Time.** A trading rotation in any class of option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. Eastern Time provided such rotation is conducted pursuant to Rule 1047 or Rule 1047A. Options on any series of Exchange-Traded Fund Shares so designated by the Exchange, options on exchange-traded notes including Index-Linked Securities and options on Alpha Indexes may be traded on the Exchange until 4:15 P.M. Eastern Time each business day. The Exchange may close trading at an early time to coincide with the

close of trading in a related futures contract on the last business day of the month, or any other day when a related futures contract closes earlier than 4:15 P.M. Eastern Time.

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**Rule 103. Dealings on the Exchange—Securities**

Only such securities as shall be admitted to dealings on an "issued," "when issued," or "when distributed" basis shall be dealt in on the Exchange.

**Rule 110. Bids and Offers—Manner**

Bids and offers may be made simultaneously, as being essentially different propositions, and may be accepted without precedence of one over another. Bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer.

**Rule 112. Bids and Offers—"When Issued"**

Bids and offers in securities admitted to dealings on a "when issued" basis may be made only "when issued," i.e., for delivery when issued as determined by the Exchange.

Bids and offers—"when distributed"

Bids and offers in securities admitted to dealings on a "when distributed" basis may be made only "when distributed," i.e., for delivery when distributed as determined by the Exchange.

**Rule 119. Precedence of Highest Bid**

The highest bid shall have precedence in all cases. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

Precedence of first bid

(a) When a bid is clearly established as the first made at a particular price, the maker shall be entitled to priority and shall have precedence on the next sale at that price, up to the number of shares of stock or principal amount of bonds specified in the bid, irrespective of the number of shares of stock or principal amount of bonds specified in such bid.

Precedence of bids equaling or exceeding amount offered

(b) When no bid is entitled to priority under paragraph (a) hereof (or when a bid entitled to priority or precedence has been filled and a balance of the offer remains unfilled) all bids for a number of shares of stock or principal amount of bonds equaling or exceeding the number of shares of stock or principal amount of bonds in the offer or balance, shall be on a parity and entitled to precedence over bids for less than the number of shares of stock or principal amount of bonds in such offer or balance, subject to the condition that if it is possible to determine



clearly the order of time in which the bids so entitled to precedence were made, such bids shall be filled in that order.

Precedence of bids for amounts less than amount offered

(c) When no bid is entitled to priority under paragraph (a) hereof (or when a bid entitled to priority or precedence has been filled and a balance of the offer remains unfilled) and no bid has been made for a number of shares of stock or principal amount of bonds equaling or exceeding the number of shares of stock or principal amount of bonds in the offer or balance, the bid for the largest number of shares of stock or greatest principal amount of bonds shall have precedence, subject to the condition that if two or more such bids for the same number of shares of stock or principal amount of bonds have been made, and it is possible to determine clearly the order of time in which they were made, such bids shall be filled in that order.

Simultaneous bids

(d) When bids are made simultaneously, or when it is impossible to determine clearly the order of time in which they were made, all such bids shall be on a parity subject only to precedence based on the size of the bid under the provisions of paragraphs (b) and (c) hereof.

**Rule 120. Precedence of Offers at Same Price**

The lowest offer shall have precedence in all cases. Where offers are made at the same price the priority and precedence shall be determined in the same manner as specified in the case of bids in Rule 119 hereof.

**Rule 128. Price of Execution Binding**

The price at which an order is executed on the Exchange shall be binding, notwithstanding the fact that an erroneous report in respect thereto may have been rendered.

**Rule 133. Trading Halts Due to Extraordinary Market Volatility**

This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2020. If the pilot is not either extended or approved permanently at the end of the pilot period, the prior version of Rule 133 shall be in effect.

(a) The Exchange shall halt trading in all stocks and shall not reopen for the time periods specified in this Rule if there is a Level 1, 2, or 3 Market Decline.

(i) For purposes of this Rule, a Market Decline means a decline in price of the S&P 500<sup>®</sup> Index between 9:30 a.m. EST and 4:00 p.m. EST on a trading day as compared to the closing price of the S&P 500<sup>®</sup> Index for the immediately preceding trading day. The Level 1, Level 2, and Level 3 Market Declines that will be applicable for the trading day will be publicly disseminated before 9:30 a.m. EST.

(ii) A "Level 1 Market Decline" means a Market Decline of 7%.

(iii) A "Level 2 Market Decline" means a Market Decline of 13%.

(iv) A "Level 3 Market Decline" means a Market Decline of 20%.

(b) Halts in Trading.

(i) If a Level 1 Market Decline or a Level 2 Market Decline occurs after 9:30 a.m. and up to and including 3:25 p.m, EST or in the case of an early scheduled close, 12:25 p.m. EST the Exchange shall halt trading in all stocks for 15 minutes after a Level 1 or Level 2 Market Decline. The Exchange shall halt trading based on a Level 1 or Level 2 Market Decline only once per trading day. The Exchange will not halt trading if a Level 1 Market Decline or a Level 2 Market Decline occurs after 3:25 p.m. EST or in the case of an early scheduled close, 12:25 p.m. EST.

(ii) If a Level 3 Market Decline occurs at any time during the trading day, the Exchange shall halt trading in all stocks until the primary listing market opens the next trading day.

(c) Re-opening of Trading

(i) The re-opening of trading following a Level 1 or 2 trading halt shall follow procedures set forth in Rule 3100.

(ii) If the primary listing market halts trading in all stocks, the Exchange will halt trading in those stocks until trading has resumed on the primary listing market or notice has been received from the primary listing market that trading may resume. If the primary listing market does not reopen a security within 15 minutes following the end of the 15-minute halt period, the Exchange may resume trading in that security.

(d) Nothing in this Rule 133 should be construed to limit the ability of the Exchange to otherwise halt, suspend, or pause the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.

**Rule 175. Limitations on Options Market Making**

No Market Maker or any member, limited partner, officer, or associated person thereof shall act as an options Specialist, Registered Options Trader or function in any capacity involving market making responsibilities, in any option overlying a security in which the Market Maker is registered as such.

**Rule 274. Payment on Delivery—Collect on Delivery**

(a) In all deliveries of securities other than securities deliverable pursuant to the rules of a registered clearing agency, the party delivering shall have the right to require the purchase money to be paid upon delivery; if delivery is made by transfer, payment may be required at the time and place of transfer.

(b) When both the member organization and its agent and the customer and its agent are participants in a securities depository, the facilities of a securities depository shall be used for the confirmation, acknowledgment and book entry settlement of all depository eligible payment on delivery transactions.

••• *Supplementary Material:* -----

**.01** Transactions that are settled outside the United States shall be exempt from the provisions of paragraph (b) of this Rule.

**.02** For the purposes of this Rule, a "securities depository" shall mean a clearing agency as defined in Section 3(a)(23) of the Securities Exchange Act of 1934, that is registered with the Securities and Exchange Commission pursuant to Section 17A(b)(2) of the Act.

**.03** For the purposes of this Rule, "depository eligible transactions" shall mean transactions in those securities for which confirmation, acknowledgment and book entry settlement can be performed through the facilities of a securities depository as defined in supplementary material .02 above.

**.04** Rule 274(b) and Supplementary Material .01, .02, .03 and .04 shall become effective January 1, 1983.

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**Rule 279. Book-Entry Settlement**

(a) Each member and member organization shall use the facilities of a securities depository for the book-entry settlement of all transactions in depository eligible securities with another member or member organization or a member of a national securities exchange or a registered securities association.

(b) Each member or member organization shall not effect a delivery-versus payment or receipt-versus-payment transaction in a depository eligible security with a customer unless the transaction is settled by book-entry using the facilities of a securities depository.

(c) For purposes of this Rule, the term "securities depository" shall mean a securities depository registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934.

(d) The term "depository eligible securities" shall mean securities that (i) are part of an issue (securities identified by a single CUSIP number) of securities that is eligible for deposit at a securities depository and (ii) with respect to a particular transaction, are eligible for book-entry transfer at the depository at the time of settlement of the transaction.

(e) This Rule shall not apply to transactions that are settled outside of the United States.

(f) The requirements of this Rule shall supersede any inconsistent requirements under other Exchange Rules.

(g) This Rule shall not apply to any transaction where the securities to be delivered in settlement of the transaction are not on deposit at a securities depository and:

- (i) if the transaction is for same-day settlement, the deliverer cannot by reasonable efforts deposit the securities in a securities depository prior to the cut-off time established by the depository for same-day crediting of deposited securities, or
- (ii) the deliverer is unable to deposit the securities in a depository prior to a cut-off date established by the depository for that issue of securities.

**Rule 431. Ex-dividend, Ex-rights**

Transactions in stocks (except those made for "cash") shall be ex-dividend or ex-rights as the case may be on the first business day preceding the record date fixed by the corporation or the date of the closing of transfer books therefor. Should such record date or such closing of transfer books occur upon a day other than a business day, such transactions shall be ex-dividend or ex-rights on the second preceding business day.

Transactions in stocks made for "cash" shall be ex-dividend or ex-rights on the business day following said record date or date of closing of transfer books.

The Exchange may, however, in any particular case, direct otherwise.

**Rule 432. Ex-warrants**

Transactions in securities which have subscription warrants attached (except those made for "cash") shall be ex-warrants on the first business day preceding the date of expiration of the warrants, except that when the date of expiration occurs on a day other than a business day, said transactions shall be ex-warrants on the second business day preceding said date of expiration.

Transactions in securities made for "cash" shall be ex-warrants on the business day following the date of expiration of the warrants.

The Exchange may, however, in any particular case, direct otherwise.

**Rule 433. Buyer Entitled to Dividend, etc.**

Unless otherwise agreed, the buyer shall be entitled to receive all dividends, rights and privileges, except voting power, accruing upon securities purchased which sell ex-dividend or ex-rights during the pendency of the contract.

**Rule 434. Claims for Dividend, etc.**

When the owner of a registered security claims dividends, rights, etc., from the party in whose name the security is registered, the registered holder thereof may require from the claimant presentation of the certificate or bond, a written statement that he was the holder of the security at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate or bond evidence of the payment by cash or due-bill.

**Rule 441. Reserved**

Reserved.

**Rule 442. Reserved**

**Rule 444. Reserved**

Reserved.

**Rule 451. Taking or Supplying Securities Named in Order**

No member or member organization, who has accepted for execution, personally or through his member organization or a partner, officer or shareholder thereof, an order for the purchase of securities shall fill such order by selling such securities for any account in which he or his member organization or a partner, officer or shareholder thereof has a direct or indirect interest, or having so accepted an order for the sale of securities shall fill such order by buying such securities for such an account, except as follows:

Missing the market

(a) A member or member organization who neglects to execute an order may be compelled to take or supply for his own account or that of his member organization the securities named in the order;

"Crossing" for own account

(b) A member or member organization, acting for another member or member organization, may take the securities named in the order, provided (1) the price is justified by the condition of the market, and (2) the member or member organization who gave the order shall directly, or through a broker authorized to act for him, after prompt notification, accept the trade;

(c) A member or member organization, acting for another member or member organization, may supply the securities named in the order, provided (1) the price is justified by the condition of the market and (2) the member or member organization who gave the order shall directly, or through a broker authorized to act for him, after prompt notification, accept the trade;

(d) A member or member organization, acting as a broker, is permitted to report to his principal a transaction as made with himself when he has orders from two principals to buy and to sell the same security and not to give up his principals;

(e) A Market Maker in accordance with its duty to provide an orderly market in the securities in which it is registered may purchase or sell for principal account, such securities named in its customer's order provided that:

(i) the price is consistent with the market;

(ii) full disclosure to its customer is made on the confirmation of the transaction in a manner that defines the interest of the Market Maker.

(f) A member or member organization may purchase or sell for principal account the securities named in his customer's order provided that:

(i) the price is consistent with the market;

- (ii) full disclosure of the interest of the member or member organization is made to his customer on the confirmation of the transaction.

**Rule 452. Limitations on Members' Trading Because of Customers' Orders**

(a) Except as provided in this Rule, no member or member organization shall cause the entry of an order to buy (sell) on the Exchange any security listed or traded on the Exchange for any account in which such member or member organization or any associated person thereof is directly or indirectly interested (a "proprietary order"), if the person responsible for the entry of such order has knowledge of any particular unexecuted customer order to buy (sell) such security which could be executed at the same price.

(b) A member or member organization may enter a proprietary order while representing a customer order which could be executed at the same price, provided the customer's order is not for the account of an individual investor, and the customer has given express permission, including an understanding of the relative price and size-of allocated-execution reports, under the following conditions:

- (1) the member or member organization is liquidating a position held in a proprietary facilitation account, and the customer order is for 10,000 shares or more;
- (2) the member or member organization is creating a bona fide hedge ("hedge") and (i) the creation of the hedge, whether through one or more transactions, occurs so close in time to the completion of the transaction precipitating such hedge that the hedge is clearly related; (ii) the size of the hedge is commensurate with the risk it offsets; (iii) the risk to be offset is the result of a position acquired in the course of facilitating a customer order; and (iv) the customer order is for 10,000 shares or more;
- (3) the member or member organization is modifying an existing hedge and (i) the size of the hedge, as modified, remains commensurate with the risk it offsets; (ii) the hedge was created to offset a position acquired in the course of facilitating a customer order; and (iii) the customer order is for 10,000 shares or more; or
- (4) the member or member organization is engaging in bona fide arbitrage or risk arbitrage transaction, and recording such transactions in an account used solely to record arbitrage transactions (an "arbitrage account").

(c) The provisions of this Rule 452 shall not apply to:

- (1) any purchase or sale of any security in an amount of less than the unit of trading made by an odd-lot dealer to offset odd-lot orders of customers;
- (2) any purchase or sale of any security upon terms for delivery other than those specified in such unexecuted market or limited price order;

- (3) transactions by a member or member organization acting in the capacity of a specialist or market maker in a security listed or traded on the Exchange otherwise than on the Exchange; and
- (4) transactions made to correct bona fide errors.

••• **Supplementary Material:** -----

**.01** A member or member organization or employee thereof responsible for entering proprietary orders shall be presumed to have knowledge of a particular customer order unless the member organization has implemented a reasonable system of internal policies and procedures to prevent the misuse of information about customer orders by those responsible for entering such proprietary orders.

**.02** This Rule 452 shall apply to any agency or proprietary transaction effected on the Exchange if such transaction ("Exchange transaction") is part of a group of related transactions that together have the effects prohibited by this Rule regardless whether (i) one or more of the other related transactions were effected on other market centers; or (ii) the Exchange transaction by itself had such effects.

**.03** Reserved.

**.04** For purposes of paragraph (b) above, the term "account of an individual investor" shall mean an account covered by Section 11(a)(1)(E) of the Securities Exchange Act of 1934. For purposes of paragraph (b)(1) above, the term "proprietary facilitation account" shall mean an account in which a member organization has a direct interest and which is used to record transactions whereby the member organization acquires positions in the course of facilitating customer orders. Only those positions which are recorded in a proprietary facilitation account may be liquidated as provided in paragraph (b)(1). For purposes of paragraph (b)(2) and (b)(4) above, the terms "bona fide hedge", "bona fide arbitrage" and "risk arbitrage" shall have the meaning ascribed to such terms in Securities Exchange Act Release No. 15533, January 29, 1979. All transactions effected pursuant to paragraph (b)(4) above must be recorded in an arbitrage account.

**.05** For purposes of paragraph (b)(2) above, a hedge will be deemed to be "clearly related" if either the first or last transaction comprising the hedge is executed on the same trade date as the transaction that precipitates such hedge. A member shall mark all memoranda of orders to identify each transaction creating or modifying a hedge as permitted under this Rule 452.

**Rule 453. Successive Transactions by Members**

No member, and no firm of which he is a partner, and no partner of such firm, shall execute or cause to be executed on the Exchange the purchase of any security at successively higher prices or the sale of any security at successively lower prices for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security, or for the purpose of making a price which does not reflect the true state of the market in such security.

**Rule 454. Reserved**

Reserved.

**Rule 455. Short Sales**

PSX shall not effect a sell order or sale of any security unless such sell order is effected in compliance with Regulation SHO promulgated under the Securities Exchange Act of 1934.

**Rule 456. Reserved**

Reserved.

**Rule 457. Reserved**

Reserved.

**Rule 458. Reserved**

Reserved.

**Rule 459. Reserved**

Reserved.

**Rule 460. Reserved**

Reserved.

**Rule 461. Reserved**

Reserved.

**Allocation, SQT, RSQT, and Evaluation Rules (Rules 500—599)****Rule 500. Reserved**

Reserved.

**Rule 501. Specialist Appointment**

(a) Upon application by a qualified member organization, the Exchange will approve such organization as an approved specialist unit. An application to act as a specialist must include, for ordinary and extraordinary circumstances, the identity of the individual who will act as head specialist as well as the individual(s) who will act as assistant specialist(s).

(b) Initial application(s) to become a specialist unit shall be in a form and/or format prescribed by the Exchange and shall include the following: (1) the identity of the unit's staff positions and



who will occupy those positions; (2) the unit's clearing arrangements; (3) the unit's capital structure, including any lines of credit; and (4) the unit's back up arrangements endorsed by the parties providing the following support: a substitute specialist unit not associated with the specialist unit which shall serve as a substitute specialist unit in the event that the specialist unit is unable to perform the duties of a specialist.

Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein.

(c) Initial applications for individuals to act as specialist shall be in a form and/or format prescribed by the Exchange and include an account of the abilities and background of the applicant as well as any other special requirements that the Exchange may require. Applications for individuals to act as a specialist on behalf of a specialist unit, must be approved by the Exchange prior to that individual acting in such capacity. The Exchange must approve an individual prior to that individual moving from one specialist unit to another specialist unit.

Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein.

(d) To be approved as a specialist unit and to retain the privilege of such status, an options or foreign currency options specialist unit must maintain the approved clearing arrangements and capital structure stated on their application as described in (b)(2) and (b)(3) above. Changes regarding the requirements in (b)(4) must be submitted and approved by the Exchange.

(e) Once an applicant is approved by the Exchange as a specialist unit, any material change in the capital or staff of the unit or any move by a head or assistant specialist from one unit to another shall be reported in writing to the Exchange and in no circumstances shall be reported more than two business days after the change.

(f) A Remote Streaming Quote Trader ("RSQT"), as defined in Rule 1000(b)(60), may submit an application as described above to be approved in one or more classes as a Remote Specialist as defined in Rule 1020(a)(ii).

(i) A Remote Specialist does not need to meet the assistant specialist staffing requirement pursuant to paragraph (d) of this rule.

**Rule 502. Reserved**

Reserved.

**Rule 503. Reserved**

Reserved.

**Rule 504. Reserved**

Reserved.

**Rule 505. Reserved**

**Rule 506. Allocation Application, Allocation, Reallocation, and Transfer**

(a) When an options class is to be allocated or reallocated by the Exchange, the Exchange will solicit applications from all eligible specialist units. If the Exchange determines that special qualifications should be sought in the successful applicant, it shall indicate such desired qualifications in the notice.

(b) An allocation or reallocation application shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name and background of the head specialist and assistant specialist(s) (except that a Remote Specialist need not include an assistant specialist), the unit's experience and capitalization demonstrating an ability to trade the particular options class sought, and any other reasons why the unit believes it should be assigned or allocated the security. In addition, the Exchange may also require that the application include other information. The Exchange may re-solicit applications for any reason, including if it determines that its initial solicitation resulted in an insufficient number of applicants.

(c) Allocation, reallocation, or transfer decisions and automatic allocations shall be communicated in writing to Exchange members.

(d) Upon allocation, reallocation, or transfer of an options class, the options class must be registered in either the name of the specialist unit, or jointly in the name of the unit and the specialist ("Registrant"). Each Registrant must be an Exchange member and an approved specialist. The Registrant shall act as specialist for the options class for at least one year ("minimum specialist period"); unless some other period is defined by the Exchange pursuant to this rule. After expiration of the minimum specialist period, the Exchange may re-allocate the options class. Once the specialist unit is allocated, reallocated, or transferred an options class, such specialist unit shall immediately notify the Exchange in writing regarding any material change in the application for any assigned options class.

(e) If a specialist unit seeks to withdraw from allocation in a security, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.

••• *Commentary:* -----

**.01 Allocation Preclusion.** A specialist unit may not apply for any new listings (allocations) for a six (6) month period after an option was taken away from the specialist in: (i) an involuntary reallocation proceeding; or (ii) a disciplinary proceeding. Such specialist is also prohibited from applying for any new listings (allocations) for a second six month period unless the Exchange is satisfied that adequate corrective actions have been undertaken by the specialist.

**02. Automatic Allocation of Options on Related Securities.**

For purposes of Supplementary Material. 02 to this Rule 506, the term "Related Securities" means, but is not limited to: securities of a partially or wholly owned subsidiary; securities that are convertible into the

securities of the issuer; warrants on securities of the issuer; securities issued in connection with a name change; securities issued in a reverse stock split; contingent value rights; "tracking" securities designed to track the performance of the underlying security or corporate affiliate thereof; securities created in connection with the merger or acquisition of one or more companies; securities created in connection with a "spin-off" transaction; convertible on non-convertible senior securities; and securities into which a listed security is convertible, where such Related Securities emanate from or are related to securities underlying options that are currently allocated to a specialist on the Exchange ("Currently Allocated Options").

The term Related Securities does not include Exchange Traded Funds.

### 03. Alternate Specialist Period.

The Exchange may establish that a Registrant shall act as a specialist in an allocated options class for a shorter period defined by the Exchange that is less than one year ("alternate specialist period"). If the Exchange establishes an alternate specialist period, it will communicate such period in solicitation applications (notices) pursuant to Rule 506.

After expiration of the alternate specialist period, the Exchange may re-allocate the options class.

- (a) Options on Related Securities ("Related Options") shall be automatically allocated to the specialist unit that is already the specialist in Currently Allocated Options ("Current Specialist"), unless the Current Specialist is subject to an Allocation Preclusion regarding new listings (allocations) pursuant to this Rule 506. In such an event, the Exchange may, nonetheless, allocate the Related Options to the Current Specialist if the Exchange determines that the trading characteristics of the Related Options to be allocated are similar to the Currently Allocated Options.

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### **Rule 507. Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options**

(a) Approval as an SQT, RSQT, or RSQTO. Registered Options Traders ("ROTs"), as defined in Rule 1014, may apply for approval as Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs"), as defined in Rule 1014(b)(ii). Member organizations may function as Remote Streaming Quote Trader Organizations ("RSQTOs") pursuant to this rule. RSQTOs may also be referred to as Remote Market Maker Organizations ("RMOs") and RSQTs may also be referred to as Remote Market Markers ("RMMs").

This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological

readiness and testing requirements described in subsection (b)(ii) below, shall be approved as an SQT. This Rule 507 places no limit on the number of member organizations that are converted to or may become RSQTOs. Any member organization in good standing, and that satisfies the RSQTO readiness and testing requirements described in this rule, shall be approved as an RSQTO. As many as five RSQTs at any time may be identified by and affiliated with an RSQTO. Each of the affiliated RSQTs must be qualified as an ROT and must be in good standing. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Exchange may defer, for a period to be determined in the Exchange's discretion, approval of qualifying applications for SQT or RSQT status pending any action required to address the issue of concern to the Exchange. The Exchange may not defer a determination of the approval of the application of any SQT or RSQT applicant or place any limitation(s) on access to the Exchange's electronic quoting and trading system on any SQT or RSQT applicant unless the basis for such limitation(s) or deferral have been objectively determined by the Exchange, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Exchange shall provide written notification to any SQT or RSQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

RSQTO application. A member organization that is not currently qualified as an RSQTO may apply to the Exchange to be an RSQTO with up to five affiliated RSQTs. Each RSQTO application shall be submitted to the Exchange's designated staff in writing (electronically or otherwise as specified by the Exchange) in a form and/or format prescribed by the Exchange and shall include, at a minimum, the name of the RSQTO applicant, the appropriate Exchange account number, and the name of each RSQT affiliated with the RSQTO applicant (the "Application Process").

- (i) RSQTO applicants must demonstrate that they have:
  - (A) Significant market-making and/or specialist experience in a broad array of securities;
  - (B) Superior resources, including capital, technology and personnel;
  - (C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
  - (D) Proven ability to interact with order flow in all types of markets;
  - (E) Existence of order flow commitments;
  - (F) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and
  - (G) Willingness and ability to make competitive markets on the Exchange and otherwise to promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the options it trades.

(ii) SQT and RSQT applicants must demonstrate that they have:

- (A) Significant market-making and/or specialist experience in a broad array of securities;
- (B) Superior resources, including capital, technology and personnel;
- (C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
- (D) Proven ability to interact with order flow in all types of markets;
- (E) Willingness and ability to make competitive markets on the Exchange and otherwise to promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the options it trades.
- (F) A current affiliation with an Exchange-approved RSQTO (RSQT applicants only).

(b)(i) Application and Assignment in Options. Each RSQTO, RSQT or SQT application for assignment in an option shall be submitted to the Exchange's designated staff in writing (electronically or otherwise as specified by the Exchange) in a form and/or format prescribed by the Exchange and shall include, at a minimum, the name of the SQT or RSQT applicant, the appropriate Exchange account number, the requested start date for each option applied for, and the name of the RSQTO member organization with whom the RSQT applicant is affiliated or the member organization with whom the SQT is affiliated. If the Exchange does not have applications for assignment in a particular option or options that it desires to assign or reassign, the Exchange may request such applications.

(ii) No application for initial assignment in an option shall be approved without verification that (A) the RSQTO, SQT or RSQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Rule 1014(b)(ii), and (B) the RSQTO, SQT or RSQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

(iii) In addition to the criteria described in this paragraph b, the Exchange shall consider the following factors in making its decision concerning an application for assignment in an option:

- (A) the financial and technical resources available to the applicant;
- (B) the applicant's experience and expertise in market making or options trading;
- (C) the applicant's prior performance as a specialist, SQT or RSQT based on good standing pursuant to Rule 510.

(c) Decisions concerning applications for assignment in Streaming Quote Options shall be in writing and shall be distributed to the applicants.

(d) The RSQTO, SQT or RSQT, upon initial assignment in an option, may not withdraw from such option assignment for ten (10) or fewer business days after the effective date of assignment. However, the Exchange may, in exceptional circumstances, approve withdrawal from an option assignment in ten (10) or fewer business days. If an RSQTO, SQT or RSQT seeks to withdraw from assignment in an option, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.

(e) An appeal to the Board of Directors from a decision of the Exchange may be requested by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered. Any appeal from a decision pursuant to Rule 507 shall be heard by the Board of Directors ("Board") or a panel appointed by the Board of Directors ("Board Panel") composed of three (3) members not involved in the Exchange decision appealed from and who otherwise have no conflict of interest. If a Board Panel is appointed by the Board, three persons shall be selected to serve on the Board Panel and in making such selections the Board shall choose individuals whose background, experience and training qualify them to consider and make determinations regarding the subject matter to be presented to the Board Panel. The Board Panel shall consist of two members of the Exchange, or general partners or officers of member organizations and one other person who would qualify as a public member as defined in Article I of the By-Laws, whom the Board considers to be qualified. The person requesting review shall be permitted to submit a written statement to and/or appear before this Board or Board Panel. The Secretary of the Exchange shall certify the record of the proceeding, if any and the written decision and shall submit these documents to the Board or Board Panel. The Board's or Board Panel's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The Board or Board Panel shall prepare and deliver to such person a written decision and reasons therefore. If the Board or Board Panel affirms the action, the action shall become effective ten (10) days from the date of the Board's or Board Panel's decision. There shall be no appeal to the Board from any decision of the Board Panel.

(f) Nothing in this Rule 507 shall be construed to automatically qualify an RSQT to be a Remote Specialist on the Exchange.

••• *Commentary:* -----

**.01** Within not more than thirty business days after assignment of an option pursuant to this Rule, an assigned SQT or RSQT shall begin to generate and submit electronic quotations for such option through the Exchange's electronic quotation, execution, and trading system.

(a) If electronic quotes are not generated and submitted by an assigned SQT or RSQT within the requisite time, the Exchange shall have the ability to terminate the assignment in question after providing written notice to the assigned SQT or RSQT, and make a re-assignment, unless there are exigent circumstances that the Exchange believes may not have allowed timely generation and submission of electronic quotes.

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**Rule 508. Transfer Application**

Any proposed agreement between or among specialist units to transfer one or more options classes already allocated to a specified specialist unit shall be identified to the Exchange in writing before the proposed transfer. An agreement to transfer a specialist unit's options classes may not become effective until approved by the Exchange. Failure to provide the Exchange prior notice of a transfer in accordance with this Rule, or failure to obtain Exchange approval of a transfer, permits the Exchange to recover the allocated securities and reallocate them pursuant to Rule 506.

**Rule 509. Reserved****Rule 510. Good Standing for Specialist, SQT, and RSQT**

(a) To remain in good standing as a specialist (including Remote Specialist), SQT, or RSQT, the specialist, SQT, or RSQT must:

- i. continue to meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the requirements set forth in the Series 500 Rules in the Rules of the Exchange;
- ii. continue to satisfy the specialist, SQT, or RSQT qualification and market making requirements specified by the Exchange, as amended from time to time;
- iii. comply with the Rules of the Exchange and the Options Rules as well as the rules of The Options Clearing Corporation and the rules of the Federal Reserve Board; and
- iv. pay on a timely basis such member, transaction, and other fees as the Exchange shall prescribe.

(b) The good standing of a specialist (including Remote Specialist), SQT, or RSQT may be suspended, terminated, or otherwise withdrawn, as provided in the Exchange's rules, if any of said conditions for approval cease to be maintained or the specialist, SQT, or RSQT violates any of its agreements with the Exchange or any of the provisions of the Rules of the Exchange or of the Options Rules.

- i. **Informal Meeting.** The Exchange will provide written notice to a specialist (including Remote Specialist), SQT, or RSQT of a contemplated action regarding good standing pursuant to this Rule 510. A specialist (including Remote Specialist), SQT, or RSQT may request and the Exchange may hold an informal meeting to discuss the alleged failure to remain in good standing and to explore possible appropriate remedies. Written notice of the date and time of the meeting will be given to the specialist (including Remote Specialist), SQT, or RSQT and no verbatim record will be kept. If the Exchange believes there are no mitigating circumstances that would demonstrate substantial improvement of or reasonable justification for the failure to meet the good standing requirements of this Rule 510, the Exchange may take appropriate action pursuant to

subsection (b) of this Rule 510. Nothing in this Informal Meeting process limits the Exchange from bringing disciplinary actions for violations of these rules.

(c) Appeal rights

An appeal by a specialist (including Remote Specialist), SQT, or RSQT to the Board of Directors ("Board") from a decision of the Exchange may be requested by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered. Any appeal from a decision pursuant to Rule 510 shall be heard by the Board or a panel appointed by the Board of Directors ("Board Panel") composed of three (3) members not involved in the Exchange decision appealed from and who otherwise have no conflict of interest. If a Board Panel is appointed by the Board, three persons shall be selected to serve on the Board Panel and in making such selections the Board shall choose individuals whose background, experience and training qualify them to consider and make determinations regarding the subject matter to be presented to the Board Panel. The Board Panel shall consist of two members of the Exchange, or general partners or officers of member organizations and one other person who would qualify as a public member as defined in Article I of the By-Laws, whom the Board considers to be qualified. The person requesting review shall be permitted to submit a written statement to and/or appear before the Board or Board Panel. The Secretary of the Exchange shall certify the record of the proceeding, if any, and the written decision and shall submit these documents to the Board or Board Panel. The Board's or Board Panel's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The Board or Board Panel shall prepare and deliver to such person a written decision and reasons therefore. If the Board or Board Panel affirms the action, the action shall become effective ten (10) days from the date of the Board's or Board Panel's decision. There shall be no appeal to the Board from any decision of the Board Panel.

**Rule 513. Voluntary Resignation of Options Privileges**

(a) If an option specialist unit voluntarily resigns from allocation in a particular option and the Exchange determines such resignation to be in the best interest of the Exchange, and that option is subsequently delisted, barring any specialist performance or disciplinary issues, the option specialist unit which last traded that option may be given preference in any future allocation decision regarding that option.

**Rule 515. Reserved**

Reserved.

**Rule 516. Reserved**

Reserved.

**Rule 517. Reserved**

Reserved.



**Rule 520. Reserved**

Reserved.

**Rule 522. Reserved**

Reserved.

**Rule 523. Reserved**

Reserved.

**Rule 524. Reserved**

Reserved.

**Rule 525. Reserved**

Reserved.

**Rule 526. Reserved**

Reserved.

**Regulation of Members and Member Organizations (Rules 600—799)****Rule 600. Registration**

(a) Each member and member organization shall register with the Membership Department an address where notices may be served. Subsequent changes in address must be provided to the Membership Department of the Exchange before the effective date thereof.

(b) Each member and member organization shall register with the Exchange, on such form or forms as may from time to time be required by the Membership Department. Registration forms shall include, but not be limited to, (i) the name and address of the individual member having qualified such member organization in accordance with Rule 910 and (ii) the name and address of the Executive Representative designated by such member organization in accordance with Rule 921(b). Members and member organizations must use Financial Industry Regulatory Authority's ("FINRA")(formerly the National Association of Securities Dealers, Inc. Web Central Registration Depository ("Web CRD") to submit Form U4, Uniform Application for Securities Industry Registration or Transfer registration filings. Members and member organizations shall amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

(c) Each member organization applicant that is a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934 must use Web CRD to submit a Uniform Application for Broker-Dealer Registration, Form BD. Member organizations shall amend Form BD filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

(d) In addition to the requirements of paragraph (a) above, each member organization must comply with the contact information requirements of this paragraph (d).

- (i) Each member organization shall report to the Exchange all contact information required by the Exchange via the FINRA Contact System.
- (ii) Each member organization shall update its required contact information promptly, but in any event not later than 30 days following any change in such information. In addition, each member organization shall review and, if necessary, update its required contact information, via such means as the Exchange may specify, within 17 business days after the end of each calendar year.
- (iii) Each member organization shall comply with any Exchange request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by Exchange staff.

**Rule 601. Office, Other Than Main Offices**

No office of a member or member organization for which the Exchange is the Designated Examining Authority shall be established without the prior notification of the Membership Department of the Exchange. Each such office must be in charge of a partner, a voting stockholder or a manager and shall be subject to such Rules as the Exchange may prescribe.

**Rule 602. Status Verification**

Upon the request of any member or member organization, the Membership Department of the Exchange shall provide such member or member organization (as applicable) with reasonable written verification of its status as a member or member organization.

**Rule 603. Control of Offices**

Each office of a member or member organization shall be under the control of the member or member organization and shall not be occupied jointly with any non-member; provided, however, that upon application, the Exchange may waive this requirement if the Exchange is satisfied that under the circumstances the public is not likely to be misled. To the extent the offices of a member or member organization are used for activities other than the conduct of a securities business, customers must be informed that those other activities are not subject to regulation or oversight by the Exchange or the Securities and Exchange Commission.

**Rule 605. Advertisements, Market Letters, Research Reports and Sales Literature**

(a) Nasdaq PHLX members and persons associated with a member shall comply with FINRA Rule 2210 (except FINRA Rule 2210(c)) as if such Rule were part of Nasdaq PHLX's Rules. Nasdaq PHLX and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of Nasdaq PHLX. Therefore, Nasdaq PHLX members are complying with Nasdaq PHLX Rule 605 by complying with FINRA Rule 2210 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Nasdaq Phlx Rule 605 are being performed by FINRA on Nasdaq's behalf.

••• *Supplementary Material:* -----

The Exchange has adopted the following policy regarding advertising, market letters, research reports, telemarketing scripts and sales literature:

The requirement for three-year retention of such material applies only to members and member organizations which prepared it for distribution.

The term "advertisement" refers to any material for use in any newspaper or magazine or other public medium or by radio, telephone recording or television.

The term "market letter" refers to any publication, printed or processed, which comments on the securities market or individual securities and is prepared for general distribution to the organization's customers or to the public. It also includes material on investment subjects prepared by a member or personnel of a member organization for publication in newspapers and periodicals.

The term "research report" refers to printed or processed analysis covering individual companies or industries.

The term "sales literature" refers to printed or processed material interpreting the facilities offered by a member organization or its personnel to the public, discussing the place of investment in an individual's financial planning, or calling attention to any market letter, research report or sales literature, which is prepared for and given general distribution.

## **SUPPLEMENTARY INFORMATION REGARDING RULE 605**

### **Standards for Advertising, Market Letters, Sales Literature, Research Reports, Telemarketing Scripts, Radio, Television and Writing Activities**

Truthfulness and good taste are the traditional standards of the Exchange community in any form of communication with the public. Rules can never take the place of good judgment in such communications. Under some circumstances what is left out may be just as important as what is included.

Member organizations, of course, can never overlook basic characteristics of investments—that prices can go down as well as up; that dividends can be cut, omitted or increased; that there is some degree of risk in any security; that investments can not be depended upon to produce a certain return in terms of purchasing power or in dollars.

Some of the guideposts established by the Exchange for written communications with the public include:

**.01 Recommendations.**—A recommendation (even though not labeled as a recommendation) must have a basis which can be substantiated as reasonable.

When recommending the purchase, sale or switch of specific securities, supporting information should be provided or offered.

The market price at the time the recommendation is made must be shown.

**.02 Disclosure.**—When market letters, sales literature or research reports recommend the purchase or sale of a specific security, member organizations must disclose the following information, if such conditions exist:

- (a) That the firm usually makes a market in the issue being recommended.
- (b) That the member organization or its partners hold options in any securities of the recommended issuer.
- (c) That some or all of the recommended securities are to be sold to or bought from customers on a principal basis by the member organization or its partners (unless covered by (a) above).
- (d) That the member organization was manager or co-manager of the most recent public offering (within 3 years) of any securities of the recommended issuer.

It has been the experience of some firms that disclosure of directorates or other insider relationships is a good way of avoiding difficulties in this area. When such disclosure is made, however, the firm should be careful to avoid exploiting these relationships by implying that the recommendation is based directly or indirectly on privileged information.

**.03 Past Recommendations.**—Material promoting past records of research recommendations, in connection with purchases or sales, is acceptable if it covers all of the following:

- (a) At least a 1-year period.
- (b) A list of all of the issues in a specific "universe"—or clearly definable area which can be fully isolated and circumscribed—recommended during the period. The list may be given or offered.
- (c) The date and price of each recommendation at the recommendation date and at the end of the period or when sale was suggested, whichever is earlier.

- (d) The number of issues recommended, the number that advanced and the number that declined, in the event a list is offered but not included in the material.

It must be made clear that—

- (1) There is no implication in any such published record of comparable future performance or that a customer can't lose by following the firm's recommendations.
- (2) The period covered was one of a generally rising market, if such is the case.
- (3) If a record is averaged, or otherwise summarized, such results would have been obtained only if each issue had been purchased when recommended and then sold at the end of the period covered or when sale was recommended. The purchase price of a given number of shares—such as a round lot—of each of the recommended securities must be shown. Commissions must be mentioned.

If such a record is started and published, and publication is subsequently discontinued for any reason, resumption will be permitted only when the intervening period is included in the published record.

A file of all the original recommendations on which the record is based must be kept by the firm and be available to the Exchange on request for three years.

A statement in a market letter, for example, that a particular security was recommended at a specific price and is now selling at a higher price is unacceptable if the intent or the effect is to show the success of a past recommendation. In such a case, all of the above qualifications would have to be met.

**.04 Testimonials.**—In using testimonials, the following points must be clearly stated in the body copy of the material:

- (a) The testimonial may not be representative of the experience of other clients.
- (b) The testimonial can not be indicative of future performance or success.
- (c) If more than a nominal sum is paid, the fact that it is paid testimonial must be indicated.
- (d) If the testimonial concerns a technical aspect of investing, the person making the testimonial must have adequate knowledge and experience to form valid opinion.

**.05 Projections and Predictions.**—Past records, charts, tables or other material can not, of course, be used to promise future profits or income from securities.

Projections and predictions should be clearly labeled as estimates. A reference to the bases of the estimates should be given or must be available on request.

**.06 Periodic Investment.**—In mentioning the benefit of dollar-cost-averaging, it should be made clear that periodic purchases in a fixed dollar amount must be continued through fluctuations in the market price, that such a plan does not protect against loss in a declining market, and that the price at which the shares are sold must be more than their average cost, in order to realize a profit.

If the low cost of buying securities under any periodic investment plan is emphasized, it is important to state whether there are commissions for the purchase and sale.

In showing total value of prior investments including reinvested dividends, the amount of the reinvested dividends should be stated separately. Commissions, taxes or other costs should also be mentioned.

**.07 Language.**—Statements which are promissory, exaggerated, flamboyant or contain unwarranted superlatives are to be avoided.

**.08 Comparisons.**—Any comparison of one firm's service, personnel facilities or charges with those of other firms must be factually supportable.

**.09 Claims for Research.**—For purposes of these standards, investment research encompasses the organized collection and analysis of information obtained in oral or written form from primary or secondary sources, which is concerned with securities, industries, the market or the economy in general and has the purpose of assisting member organizations and their customers in evaluating securities.

A member organization which advertises or promotes its research services or capabilities must have a reasonable basis for any claims it makes.

A market letter, research report or similar publication should not carry a research department by-line, or by implication give the impression of originating within a research department, unless it did originate there.

**.10 Dating Reports.**—All market letters, research reports and similar publications must be appropriately dated. Any significant information that is not reasonably current (usually not more than 6 months old—depending on the industry and circumstances) should be noted.

**.11 Identification of Sources.**—A market letter or research report not prepared under the direct supervision of the research department of the distributing firm or its correspondent member organization should show the person (by name and appropriate title) or outside organization which prepared the material.

In distributing market letters or research reports prepared under the direct supervision of the research department of a correspondent member organization, the distributing firm should mention this fact, although it may not be necessary to identify the correspondent by name.

Releases prepared and published by or for a corporate issuer or its public relations counsel and distributed by member organizations should be clearly identified as such.

**.12 Portfolio Analysis.**—Portfolio Analysis is defined as the appraisal of an investor's present holdings of securities, individually and collectively, for the purpose of offering investment recommendations consistent with his stated objectives and general financial status.

Persons engaged in Portfolio Analysis should be adequately supervised and they should not undertake analysis which is not commensurate with their experience and training.

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### **Rule 607. Covered Sale Fee**

(a) Under Section 31 of the Securities Exchange Act of 1934, the Exchange must pay certain fees to the Securities and Exchange Commission ("Commission"). To help fund the Exchange's obligations to the Commission under Section 31, a Covered Sale Fee is assessed by the Exchange to members and member organizations. To the extent there may be any excess monies collected under this Rule, the Exchange may retain those monies to help fund its general operating expenses.

(b) Each member and member organization engaged in executing sale transactions on the Exchange or executing transactions on another exchange or on a Participant in FINRA's Alternative Display Facility ("ADF Participant"), which were routed through the Exchange's Routing Facility, as defined in Rule 1080(m)(iii), during any computational period shall pay a Covered Sale Fee equal to (i) the Section 31 fee rate multiplied by (ii) the member's aggregate dollar amount of covered sales.

(c) A Covered Sale Fee is assessed by the Exchange to each member for sales of securities in the following circumstances:

(i) When a sale in equity securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.

- (ii) When a sale in option securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.
- (iii) When a sell order in option securities is routed for execution at a market other than the Exchange's options market, resulting in a covered sale on that market and an obligation of the Exchange's Routing Facility to pay the related sales fee of that market.

The Covered Sale Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of the Exchange.

**Rule 608. Reserved**

Reserved.

**Rule 610. Notification of Changes in Business Operations**

Any member or member organization for which the Exchange is the Designated Examining Authority ("DEA") shall provide prior written notification to the Exchange of any change in the business operations of such member or member organization which would cause the member or member organization to be subject to additional or modified net capital requirements, examination schedules or other registration, examination or regulatory requirements.

For the purpose of this Rule, the appropriate time frame for notification is at least 10 business days prior to the change in business operations.

**Rule 625. Training**

All members and persons employed by or associated with such member or a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the trading floor.

**Rule 650. Reserved**

Reserved.

**Rule 651. Exchange's Costs of Defending Legal Proceedings**

Any member or member organization, or person associated with any of the foregoing who fails to prevail in a lawsuit or other legal proceeding instituted by such person or entity against the Exchange or any of its board members, officers, committee members, employees, or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed \$50,000.00. This provision shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

**Rule 652. Limitation of Exchange Liability and Reimbursement of Certain Expenses**



(a) The Exchange, including for purposes of Rule 652 its officers, directors and employees, shall not be liable for any damages sustained by a member, member organization, or person associated with any of the foregoing, arising out of or relating to the use or enjoyment by such person or entity of the facilities afforded by the Exchange to members for the conduct of their business.

(b) The cost to the Exchange of producing, pursuant to court order or other legal process, records relating to the business or affairs of a member, member organization, or person associated with any of the foregoing, may, in the discretion of the Exchange, be required to be paid to the Exchange by such person or entity, whether such production is required at the instance of such person or entity, or at the instance of any other party.

(c) In the event any action or proceeding is brought, or claim made, to impose liability on the Exchange for an alleged failure on its part to prevent or to require action by a member, member organization, or person associated with any of the foregoing, such person or entity may, in the discretion of the Exchange, be required to reimburse the Exchange for:

- (1) all expenses, including counsel fees, incurred by the Exchange in connection with said action, proceeding, or claim, (2) the recovery, if any, adjudged against the Exchange upon a final determination that the Exchange was liable for the damage sustained, and (3) any payment made by the Exchange with the approval of the member, member organization, or person associated with any of the foregoing in connection with any settlement of any such action, proceeding, or claim; provided, however, that no member, member organization, or person associated with any of the foregoing shall be required to reimburse the Exchange for any fine or any other civil penalty imposed on the Exchange by the Securities and Exchange Commission ("Commission") or any other governmental entity for a violation by the Exchange of any provision of the Act or of any Commission regulation, or where indemnification would otherwise be prohibited by law.
- (2) Each member organization that physically conducts a business on the Exchange's trading floor is required, at its sole cost, to procure and maintain liability insurance that provides defense and indemnity coverage for itself, any person associated with it and the Exchange for any action or proceeding brought, or claim made, to impose liability upon such member organization, associated person or the Exchange resulting from, relating to, or arising out of the conduct of the member organization or associated person (hereinafter, "Insurance"). The Insurance shall further provide defense and indemnity coverage to the Exchange for the Exchange's sole, concurrent, or contributory negligence, or other wrongdoing, relating to or in connection with such claim. The Exchange shall be expressly named by endorsement as an Additional Insured under the Insurance. The Exchange's status and rights to coverage under the Insurance shall be the same rights of the named insured of the Insurance, including, without limitation, rights to the full policy limits. In addition:
  - (i) The limits for the Insurance shall be not less than \$1,000,000 without erosion by defense costs, but under no circumstance shall the Exchange be entitled to less than the full policy limits of such Insurance.

- (ii) The Insurance shall state that it is primary to any insurance maintained by the Exchange.
- (iii) Each member organization annually shall cause a certificate of insurance to be issued directly to the Exchange demonstrating that insurance compliant with this Rule has been procured and is maintained. Each member organization also shall furnish a copy of the Insurance to the Exchange for review upon the Exchange's request at any time.
- (a) This section (2) is the only section of Rule 652 specifically limited to member organizations physically located on the Exchange's trading floor.

(d) In the event that a member, member organization, or person associated with any of the foregoing fails to remit any amount due the Exchange under this Rule or Rule 651, such person shall be responsible for all costs of collection incurred by the Exchange, including counsel fees. This subsection does not apply to any objection or appeal by a member, member organization, or person associated with any of the foregoing considered by the Exchange or the Commission, or any appeal from a decision of the Commission.

(e) Rules 652(a), (b) & (c) shall apply to any action, proceeding, claim, or other legal process brought, made, or asserted on or after the date of the filing of this Rule with the Commission. Rule 652(d) shall apply to any costs incurred by the Exchange upon approval of this Rule.

**Rule 700. Reserved**

Reserved.

**Rule 701. Reserved**

Reserved.

**Rule 702. Reserved**

Reserved.

**Rule 703. Financial Responsibility and Reporting**

(a) *Financial Responsibility Standards.*—Each member organization effecting securities transactions shall comply with the capital requirements set forth below:

- (i) each member organization subject to SEC rule 15c3-1 shall at all times comply with said rule and the notification provisions of SEC rule 17a-11;
- (ii) each member organization exempt from SEC rule 15c3-1 shall, at the time of its admission to the Exchange, have a minimum of \$25,000 in net liquid assets;
- (iii) each member organization or foreign currency options participant organization exempt from SEC Rule 15c3-1 and whose principal business is as a registered options trader on the Exchange, shall, subject to subparagraph (iv) below, at all times maintain a minimum of \$25,000 in net liquid assets;

- (iv) each member organization referred to in paragraph (iii) above shall at all times maintain positive net liquid assets and, in its clearing account(s), positive equity, provided that said organization has filed with the Exchange a letter of guarantee issued on its behalf by a clearing member organization of this Exchange which is also a clearing member of the Options Clearing Corporation. In said letter the clearing member organization guarantees the financial responsibilities of said organization for all transactions and balances carried and cleared in the clearing account(s). Such letter of guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange by the clearing member organization. A revocation shall in no way relieve a clearing member organization of responsibility for transactions guaranteed prior to the effective date of such revocation.
- (v) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.
- (vi) Each member organization which maintains a joint back office ("JBO" arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System shall comply with the requirements below:
  - (A) Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and subject to SEC rule 15c3-1(b)(i).
  - (B) Each JBO participant must meet and maintain a minimum account equity requirements of \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Exchange Rule 722.
  - (C) Each JBO participant must meet and maintain the ownership standards.
  - (D) Each JBO participant must employ or have access to a qualified Series 27 principal.
- (vii) Every clearing member organization carrying JBO accounts in accordance with Regulation T, shall comply with Section 220.7 of the Federal Reserve Board.
  - (A) Each member organization that carries JBO accounts shall not allow its (i) tentative net to fall below \$25 million or in the alternative its (ii) net capital \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of the gross haircuts calculated for all options market makers and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (ii) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of

gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC rule 15c3-1.

- (B) Each member organization which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each JBO participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities are sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Exchange Rule 722.
- (C) Each member organization which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO participant's account equity and the proprietary haircut calculated pursuant to SEC rule 15c3-1 for the positions maintained in such account.
- (D) Each member organization which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.
- (E) Each member organization which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing of its intention to carry such accounts.

If at any time a clearing member operating pursuant to paragraphs (vii)(A)(i) or (ii) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing member shall immediately notify the Exchange of such deficiency by telegraphic or facsimile notice; and be subject to the prohibition against withdrawal of equity capital set forth in SEC rule 15c3-1(e) and to the prohibitions against reduction, prepayment and repayment of subordination agreements set forth in paragraph (b)(1) of the SEC rule 15c3-1d, as if such broker or dealers' net capital were below the minimum standards specified by each of these paragraphs.

(F) Each member organization which maintains JBO accounts must develop risk analysis standards which are acceptable to the Exchange.

- (viii) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.

(b) *Computation of Net Liquid Assets.*—Each member organization subject to this Rule shall compute net liquid assets in accordance with the following.

- (i) Net Liquid Assets shall mean Total Assets less Total Liabilities less Non-Allowable Assets plus Exchange-approved Subordinated Liabilities less 2/3 of the value, as defined below. Unless provided otherwise in this rule, assets, liabilities and net worth shall be computed in accordance with generally accepted accounting principles.

- (ii) Assets and Non-Allowable Assets shall have the same meaning as set forth in SEC rule 15c3-1 except as stated in paragraph (b)(i) above;
- (iii) Exchange-approved Subordinated Liabilities shall have the same meaning as those liabilities subject to Appendix D to SEC rule 15c3-1 and shall be executed and maintained in the same manner as defined in said Rule and SEC rule 17a-11.

(c) *Reporting and Recordkeeping.*—Member organizations shall make the following reports of their compliance with their pertinent financial responsibility rules:

- (i) Organizations designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1 and subject to SEC rules 15c3-1 and 17a-5 shall file those periodic and annual reports and annual certified audited statements as prescribed by SEC rule 17a-5.
- (ii) Each organization designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1 and acting as a Market Maker and/or option specialist shall, on forms prescribed by the Exchange, file the following reports with the Exchange or its designee:
  - (A) As of the last business day of each month, a statement of assets, liabilities, net worth and a computation of net capital;
  - (B) As of the last business day of each calendar quarter, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said calendar quarter and, where applicable, changes in retained earnings, partnership capital and subordinated liabilities; and
  - (C) As of the last business day of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said year and where applicable, changes in retained earnings, partnership capital and subordinated liabilities and any other supplemental schedule(s) as may be required by the SEC.
- (iii) Each organization designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1, exempt from SEC rule 15c3-1 and maintaining net liquid assets in accordance with Rule 703(a)(iii), shall, on forms prescribed by the Exchange, file those reports prescribed in Rule 703(c)(ii)(A), (B), and (C).
- (iv) Each organization designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1, exempt from SEC rule 15c3-1 and maintaining net liquid assets in accordance with Rule 703(a)(iv), shall file only those reports prescribed in Rule 703(c)(ii)(C) as well as those reports prescribed in 703(c)(iv)(A).
  - (A) As of the last business day of the first half of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said first half, and where applicable, changes in retained earnings, partnership capital and subordinated liabilities.

- (v) Each organization designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1 and acting as a broker on the Exchange shall, on forms prescribed by the Exchange, file those reports described in Rule 703(c)(ii)(A), (B), and (C).
- (vi) Each member organization whose principal business is acting as a broker on PSX, who is not self-clearing and for which the Exchange is the DEA must establish and maintain an account with a clearing firm for the sole purposes of carrying positions resulting from errors made in the course of its brokerage business. Such an account for options transactions must be maintained with an entity which is also a clearing member of the Options Clearing Corporation. A broker on PSX, prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the broker on PSX with respect to all orders entrusted on PSX with such broker on PSX as well as all transactions and balances carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing member organization of its intent to no longer clear or carry transactions for such broker on PSX. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

(d) The Exchange may at any time or from time to time with respect to a particular member organization, prescribe more frequent filing of reports or greater net liquid asset requirements than those prescribed under this Rule, including more stringent treatment of items in computing net liquid assets.

(e) *Due Dates; Fees for Late Filing.*—Each financial report required by Rule 703(c) shall be filed with the Exchange within seventeen business days after the conclusion of the reporting period. Reports shall be deemed to have been filed on the date which they have been postmarked; if such reports have not been postmarked, they shall be deemed to have been filed when received by the Exchange. A request for an extension of time to file any such report must be received by the Exchange no later than the business day before the due date for the required report. Unless such an extension has been granted, a member organization shall pay a late fee as set forth below for each week or any part thereof that the report has not been filed.

- (i) \$100 per week for the first late filing in a twelve-month period;
- (ii) \$300 per week for the second late filing during a twelve-month period; and
- (iii) \$1,000 per week for the third late filing, and subsequent late filings, during a twelve-month period.

The twelve-month period is calculated based on report due dates. Delinquencies will be calculated based on a running twelve-month period.

(f) *Filings with The Exchange.*—All letters, reports, extension requests and other items required to be filed with the Exchange by any provision of this Rule shall be filed with the Exchange or its designee.

••• *Commentary:* -----

**.01** JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Rule 722 or under the comparable rules of another self-regulatory organization.

**.02** Organizations designated to the Exchange for financial responsibility pursuant to SEC rule 17d-1 and subject to SEC rules 15c3-1 and 17a-5 or exempt from SEC rule 15c3-1 and maintaining net liquid assets in accordance with Rule 703(a), must file electronically with the Exchange or its designee, utilizing such method as required by the Exchange, FOCUS Reports and filings required by SEC rule 17a-5(a) and (b) and Rule 703(c), (d) and (f). Exchange members are still obligated to submit such filings to the Securities and Exchange Commission as specified in the Securities Exchange Act of 1934 ("Act"), as amended, and the rules promulgated under the Act.

**Rule 704. Assignment of Interest of Partner**

No partner in a member organization that is a partnership shall assign or in any way encumber his interest in such partnership without the prior approval of the Membership Department.

**Rule 705. Fidelity Bonds**

**(a) General Provision**

**(1)** Each member and member organization required to join the Securities Investor Protection Corporation shall maintain blanket fidelity bond coverage which provides against loss and has Insuring Agreements covering at least the following:

- (A) Fidelity;
- (B) On Premises;
- (C) In Transit;
- (D) Forgery and Alteration;
- (E) Securities; and
- (F) Counterfeit Currency.

(2) The fidelity bond must include a cancellation rider providing that the insurance carrier will use its best efforts to promptly notify the Exchange in the event the bond is cancelled, terminated or substantially modified.

(3) A member or member organization's fidelity bond must provide for per loss coverage without an aggregate limit of liability.

**(b) Minimum Required Coverage**

(1) A member or member organization with a net capital requirement of less than \$250,000 must maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule of the greater of (A) 120% of the member or member organization's required net capital under SEC rule 15c3-1 or (B) \$100,000. A member or member organization with a net capital requirement of \$250,000 or more must maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule in accordance with the following table:

<u>Net Capital Requirement under SEA Rule 15c3-1</u>	<u>Minimum Coverage</u>
250,000 - 300,000	600,000
300,001 - 500,000	700,000
500,001 - 1,000,000	800,000
1,000,001 - 2,000,000	1,000,000
2,000,001 - 3,000,000	1,500,000
3,000,001 - 4,000,000	2,000,000
4,000,001 - 6,000,000	3,000,000
6,000,001 - 12,000,000	4,000,000
12,000,001 and above	5,000,000

(2) At a minimum, a member or member organization must maintain fidelity bond coverage for any person associated with the member or member organization, except directors or trustees who are not performing acts within the scope of the usual duties of an officer or employee.

(3) Any defense costs for covered losses must be in addition to the minimum coverage requirements as set forth in paragraph (b)(1) of this Rule.

**(c) Deductible Provision**

A provision may be included in a fidelity bond to provide for a deductible of up to 25% of the coverage purchased by a member or member organization. Any deductible amount elected by the member or member organization that is greater than 10% of the coverage purchased by the member or member organization must be deducted from the member or member organization's



net worth in the calculation of its net capital for purposes of SEC rule 15c3-1. If the member or member organization is a subsidiary of another Exchange member, or member organization this amount may be deducted from the parent's rather than the subsidiary's net worth, but only if the parent guarantees the subsidiary's net capital in writing.

**(d) Annual Review of Coverage**

(1) A member or member organization, including a member or member organization that signs a multi-year insurance policy, shall, annually as of the yearly anniversary date of the issuance of the fidelity bond, review the adequacy of its coverage and make any required adjustments, as set forth in paragraphs (d)(2) and (d)(3) of this Rule.

(2) A member or member organization's highest net capital requirement during the preceding 12-month period, based on the applicable method of computing net capital (dollar minimum, aggregate indebtedness or alternative standard), shall be used as the basis for determining the member's or member organization's required minimum fidelity bond coverage for the succeeding 12-month period. For the purpose of this paragraph, the "preceding 12-month period" shall include the 12-month period that ends 60 days before the yearly anniversary date of a member's or member organization's fidelity bond.

(3) A member or member organizations that has only been in business for one year and elected the aggregate indebtedness ratio for calculating its net capital requirement may use, solely for the purpose of determining the adequacy of its fidelity bond coverage for its second year, the 15 to 1 ratio of aggregate indebtedness to net capital in lieu of the 8 to 1 ratio (required for broker-dealers in their first year of business) to calculate its net capital requirement. Notwithstanding the above, such member or member organization shall not carry less minimum bonding coverage in its second year than it carried in its first year.

**(e) Notification of Change**

A member or member organization shall immediately advise the Exchange in writing if its fidelity bond is cancelled, terminated or substantially modified.

**(f) Exemptions**

(1) The requirements of this Rule shall not apply to:

(A) member or member organizations that maintain a fidelity bond as required by another national securities exchange or FINRA, registered with the SEC under Section 6 of the Exchange Act, provided that the member or member organization is in good standing with such national securities exchange and the fidelity bond requirements of such exchange are equal to or greater than the requirements of this Rule; and

(B) member or member organizations whose business is solely that of a Registered Options Trader, Specialist or Floor Broker who does not conduct business with the public.

••• *Supplementary Material:* -----

**.01 Definitions.** For purposes of this Rule, the term "substantially modified" shall mean any change in the type or amount of fidelity bonding coverage, or in the exclusions to which the bond is subject, or any other change in the bond such that it no longer complies with the requirements of this Rule.

**.02 Alternative Coverage.** A member or member organization that does not qualify for blanket fidelity bond coverage as required by paragraph (a)(3) of this Rule shall maintain substantially similar fidelity bond coverage in compliance with all other provisions of this Rule, provided that the member or member organization maintains written correspondence from two insurance providers stating that the member or member organization does not qualify for the coverage required by paragraph (a)(3) of this Rule. The member or member organization must retain such correspondence for the period specified by SEC rule 17a-4(b)(4).

**Rule 706. Reserved**

Reserved

**Rule 707. Conduct Inconsistent with Just and Equitable Principles of Trade**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in conduct inconsistent with just and equitable principles of trade.

*Commentary:* -----

**.01** Without limiting the generality of Rule 707, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage, directly, or indirectly, in any conduct that threatens, harasses, intimidates, constitutes a "refusal to deal," or retaliates against any member, member organization, person associated with or employed by a member or member organization, or other market participant because such member, member organization, person associated with or employed by a member or member organization, or other market participant has: (i) made a proposal to any exchange or other market to list or trade any option class; (ii) advocated or proposed to list or trade an option class on any exchange or other market; (iii) commenced making a market in or trading any option class on any exchange or other market; (iv) sought to increase the capacity of any options exchange or the options industry to disseminate quote or trade data; (v) sought to introduce new option products; or (vi) acted, or sought to act, competitively.

**.02** Without limiting the generality of Rule 707, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage in conduct that has the intent or effect of unbundling equity securities orders for execution for the primary purpose of maximizing a monetary or in-kind amount received by the member, member organization, or person associated with or employed by a member or member organization as a result of the execution of such equity securities orders. For purposes of this section, "monetary or in-kind amounts" shall be defined to include commissions, gratuities, payments for or rebate of fees resulting from the entry of such equity securities orders, or any similar payments of value to the member, member organization, or person associated with or employed by a member or member organization.

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**Rule 708. Acts Detrimental to the Interest or Welfare of the Exchange**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in acts detrimental to the interest or welfare of the Exchange.

**Commentary:** -----

**.01** Acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, the following:

- (a) conviction or guilty plea to any felony charge or any securities or fraud-related criminal misconduct;
- (b) use or attempted use of unauthorized assistance while taking any securities industry or Exchange-related qualification examination;
- (c) failure to make a good faith effort to pay any fees, dues, fines or other monies due and owing to the Exchange;
- (d) destruction or misappropriation of Exchange or member property;

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**Rule 711. Reserved**

Reserved

**Rule 712. Independent Audit**

Each member organization doing any business with the public shall at least once each calendar year cause to be made an audit of its affairs, conducted in accordance with applicable audit

requirements of the Securities and Exchange Commission and such other requirements as deemed appropriate by the Exchange, by independent public accountants and shall have such accountants prepare an answer to the financial questionnaire of the Exchange based upon such audit.

Pursuant to Rule 17a-5(d), promulgated under the Exchange Act, all broker-dealers are required to file annually audited financial statements ("Annual Audits") with their Designated Examining Authority and the SEC, no more than 60 days after the date of the year end financial statements. A member organization unable to meet the filing deadline for its Annual Audit as a result of exceptional circumstances may request an extension of time, in writing, prior to the filing due date. Annual Audits not received by the Exchange by the due date, or revised due date if an extension has been granted, will be subject to a late fee as set forth below for each week or any part thereof that the Annual Audit has not been filed, as calculated based on the due date or revised due date for filing the Annual Audit. (Implemented on a running three-year basis.)

- (i) \$100 per week for the first late filing in a three-year period.
- (ii) \$300 per week for the second late filing in a three-year period.
- (iii) \$1,000 per week for the third late filing in a three-year period.

••• **Supplementary Material:** -----

The Exchange has adopted the following directive:

**Annual audit**

While the new rule eliminates the requirement for a surprise audit it is still required that an audit be conducted. The annual audit may be done on a surprise basis but the rule also allows for the audit to be conducted on a calendar year basis, fiscal year basis or any other regular basis approved by the Exchange.

The agreement between the member organization and the accountant, required to be filed with the Membership Department under directive of the Exchange, shall read substantially as follows, although additional provisions, not inconsistent with the following, may also be included in the agreement:

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••• **Supplementary Material:** -----

SAMPLE COPY

**(Not for filing)**

**To be typed on Accountants Letterhead**

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(Name of Member Organization)

Gentlemen:

You have selected us (me) to make an audit of your affairs and to prepare an answer to the financial questionnaire required to be filed with Nasdaq PHLX LLC based upon such audit.

We (I) Agree

- (1) To make an audit of the affairs of your firm in accordance with the audit regulations of the Securities and Exchange Commission and Nasdaq PHLX LLC. Such audit shall be conducted as of , 20. In the event the audit is to be conducted on a "surprise" basis, do not fill in date called for above and state that "the audit will be made without prior notice to your firm."
- (2) to notify promptly the Membership Department that the audit has been commenced;
- (3) to prepare an answer to the financial questionnaire required to be filed with the Membership Department, based upon such audit;
- (4) to submit to the Membership Department a copy of such answer accompanied by an attestation, in the prescribed form, signed by the general partners (officers) of the member firm (corporation) and ourselves (myself);
- (5) to submit to the Membership Department a copy of our (my) report in accordance with the special instructions which appear in the financial questionnaire.

Yours very truly,

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Signature of Independent

Public Accountant

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**Rule 715. Reserved**

Reserved.

**Rule 716. Reserved**

Reserved.

**Rule 721. Proper and Adequate Margin**

(a) No member organization shall effect a transaction or accept or carry an account for a customer, whether a member or non-member of the Exchange, without proper and adequate margin in accordance with the Margin Rules set forth in Rules 721, 722 and 723 and Regulation T.

(b) A member organization must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or New York Stock Exchange ("NYSE") as the same may be in effect and amended from time to time.

(1) Such election shall be promptly made in writing by a notice filed with the Exchange.

(2) Upon the filing of such election, a member organization shall be bound to comply with the margin rules of CBOE or NYSE, as applicable, as though said rules were part of the Exchange's Margin Rules.

(A) Upon the filing of such election, a member organization engaged in trading Treasury securities options on the Exchange shall, in respect of such trading, comply with the NYSE initial and maintenance margin rules or CBOE margin rules in Chapter XII (not CBOE Government security option margin rules in Chapter XXI). Provided, however, that short Treasury security options traded on the Exchange shall follow the margin percentage requirements for short equity options in NYSE margin rules or the margin percentage requirements for short equity options in CBOE Chapter XII; and provided that portfolio margin shall not be applicable to Treasury securities options.

(c) The margin requirement for any U.S. dollar-settled foreign currency put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be calculated as follows:

(1) The Exchange will review the five day price movements comparing the base currency against the underlying currency over the most recent three-year period for each foreign currency pair underlying options traded on the Exchange and will set margin levels which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(2) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.

(3) If the results of subsequent reviews show that the confidence level for any currency pair has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency pair will be monitored monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a

98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

- (4) The Exchange will also review each currency pair for large price movements outside the margin level ("extreme outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency pair will be increased to a confidence level of 99%.

(d) The margin requirement for any Alpha Index put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be the same as the higher of the margin requirements applicable to options on the two individual components of the index.

**Rule 723. Prohibition on Free-Riding in Cash Accounts**

No member organization shall permit a customer (other than a broker/dealer or a "designated account") to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No member organization shall permit a customer to make a practice of selling securities with them in a cash account which are to be received against payment from another broker/dealer where such securities were purchased and are not yet paid for. A member organization transferring an account which is subject to a Regulation T 90-day freeze to another member organization shall inform the receiving member organization of such 90-day freeze.

The provisions of Section 220.8(c) of Regulation T of the Board of Governors of the Federal Reserve System dictate the prohibitions and exceptions against customers' free riding. Member organizations may apply to the Exchange in writing for waiver of a 90-day freeze not exempted by Regulation T.

**Rule 724. Reserved**

Reserved.

**Rule 725. Reserved**

Reserved.

**Rule 741. Customers' Securities**

No member organization shall make improper use of a customer's securities.

**Rule 742. Restrictions on Pledge of Customers' Securities**

(a) No agreement between a member organization and a customer authorizing the member organization to pledge securities carried for the account of the customer either alone or with other securities, either for the amount due thereon or for a greater amount, or to lend such securities, shall justify the member organization in pledging or lending more of such securities than is fair and reasonable in view of the indebtedness of said customer to said member organization, except as provided in paragraph (d) of this Rule.

#### Agreements for use of customers' securities

(b) No member organization shall lend, either to itself as broker or to others, securities held on margin for a customer and which may be pledged or loaned under paragraph (a) hereof, unless such member organization shall first have obtained a separate written authorization from such customer permitting the lending of such securities by such member organization.

#### Restrictions on delivery of customers' securities

(c) No general agreement between a member organization and a customer shall justify the member organization in delivering securities carried for the customer on sales made by the member organization for any account in which such member organization or any partner thereof or stockholder therein is directly or indirectly interested.

#### Free or excess margin securities

(d) No securities held by a member organization for the account of a customer, whether free or representing excess margin, may be loaned to itself as broker, or to others, or delivered on sales made by the member organization for any account in which the organization or any partner or stockholder has a direct or indirect interest unless a specific written agreement designating the particular securities to be loaned is first obtained from the customer.

#### **Rules 743 and 744. Reserved —¶2744**

#### **Rules 743 and 744. Reserved**

#### **Rule 745. Partial Payments**

No member organization shall make an arrangement for the purchase of securities for the account of a customer, to be paid for by the customer on installments or by a series of partial payments, under which the charge for purchasing and carrying any such securities is unreasonable.

#### **Rule 746. Diligence as to Accounts**

Every member is required either personally or through a general partner or an officer who is a holder of voting stock in his organization to use due diligence to learn the essential facts relative to every customer and to every order or account accepted by his organization.

#### **Rule 747. Approval of Accounts**

No member organization shall make any brokerage transactions for the account of a customer unless, prior to the completion thereof, a general partner or an officer who is a holder of voting stock in such organization shall have specifically approved the opening of such account, provided, however, that in the case of branch offices the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall within a reasonable time be approved by a general partner or an officer who is a holder of voting stock in such organization. The member, general partner or officer approving the opening of an account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall



indicate his approval in writing on a document which will become part of the records of his office or organization.

**Rule 748. Supervision**

(a) *General*—Each office, location, department, business activity, trading system and internal surveillance system of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of an appropriately qualified supervisor, as described in (c) below.

Each member or member organization and registered representative, employee, and associated person of a member or member organization shall be under the supervision and control of an appropriately qualified supervisor, as described in (c) below.

For the purposes of this Rule, individuals engaged in acting as back-up specialist unit will be considered to be engaged in a business activity for the specialist unit they are assisting pursuant to Rule 501(b)(4).

(b) *Designation of Supervisor by Member Organizations*—The general partners or directors of each member organization shall provide for appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations, including the By-Laws and Rules of the Exchange. The designated person shall:

- (1) Delegate to qualified principals or qualified employees responsibility and authority for supervision and control of each office, location, department, business activity, trading system and internal surveillance system (including foreign incorporated branch offices), and provide for appropriate written procedures of supervision and control; and
- (2) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) *Qualification of Supervisor*—Each member or member organization must make reasonable efforts to determine that each person with supervisory control, as described in paragraphs (a) and (b) above, is qualified by virtue of experience or training to carry out his or her assigned responsibilities. Each person with supervisory control, as described in paragraphs (a) and (b) above, must meet the Exchange's qualification requirements for supervisors, including successful completion of the appropriate examination.

(d) *Standards for Supervision*—Each person with supervisory control, as described in paragraphs (a) and (b) above, shall reasonably discharge his duties and obligations in connection with such supervision and control to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

(e) *Interviews or Meetings and Reviews of Business*—At least annually, each member or member organization for which the Exchange is the Designated Examining Authority ("DEA") shall:

- (1) Conduct an interview or meeting with all registered representatives, employees, or associated persons, at which compliance matters relevant to the activities of the registered representatives, employees, or associated persons are discussed; and
- (2) Conduct a review of the business(es) in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

Each member or member organization shall retain a written record of the dates upon which each interview or meeting and review of business occurred, the participants in the interview or meeting, and the results thereof.

(f) *Branch Offices*—Each member organization for which the Exchange is the Designated Examining Authority ("DEA") shall file with the Exchange a list identifying each of its branch offices by completing a Branch Office Disclosure Form and submitting the Form to the Exchange's Membership Department. Member organizations for which the Exchange is the DEA shall file amendments to the Branch Office Disclosure Form with the Exchange no later than thirty (30) days from the date of any change to the information in the Form. Member organizations for which the Exchange is the DEA shall provide information about its branch offices, including, but not limited to: location, designated supervisor, contact information, number of traders at the location and type of activity conducted at the branch office.

(g) *Office Inspections*—Each member or member organization for which the Exchange is the DEA shall inspect each office or location (including foreign incorporated branch offices) of the member or member organization according to a cycle that shall be established in its written supervisory procedures. An inspection may not be conducted by any person within that office or location who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). In establishing such inspection cycle, the member or member organization shall give consideration to the nature and complexity of the securities activities for which the office or location is responsible, the volume of business done, and the number of registered representatives, employees, and associated persons at each office or location. The inspection schedule and an explanation of the factors considered in determining the frequency of the inspections in the cycle shall be set forth in the member's or member organization's written supervisory procedures. The inspection shall be reasonably designed to assist in preventing and detecting violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules.

Each member or member organization shall retain a written record of the dates upon which each inspection is conducted, the participants in the inspection, and the results thereof.

(h) *Written Supervisory Procedures*—Each member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such

procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

The written supervisory procedures shall set forth the supervisory system established by the member or member organization and shall include the name, title, registration status, and location of all supervisory personnel required by this rule, the dates for which supervisory designations were or are effective, and the responsibilities of supervisory personnel as these relate to the types of business(es) the member or member organization engages in, and securities laws and regulations, including the By-Laws and Rules of the Exchange. This record must be preserved for a period of not less than three years, the first two in an easily accessible place.

A copy of the written supervisory procedures shall be kept and maintained at each location where supervisory activities are conducted on behalf of the member or member organization. Each member or member organization shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, Exchange rules, supervisory personnel or supervisory procedures. Each member or member organization shall be responsible for communicating such changes throughout its organization within a reasonable time.

**Rule 749. Transactions for Employees of Exchange, etc.**

No member organization shall take or carry an account or make a transaction in which an employee of the Exchange, or of any corporation of which the Exchange owns a majority of the capital stock, or of any other member or member organization, is directly or indirectly interested, without the prior written consent of the employer.

**Rule 750. Speculative Transactions for Employees of Certain Employers**

No member organization shall, without the prior written consent of the employer, take or carry a speculative account or make a speculative transaction in which an employee of a bank, trust company, insurance company, or of any corporation, association, firm or individual engaged in the business of dealing, either as broker or as principal, in stocks, bonds, or other securities in any form, bills of exchange, acceptances, or other forms of commercial paper, is directly or indirectly interested.

**Rule 751. Accounts of Employees of Member Organizations**

No member organization shall take or carry an account or make a transaction in which an employee of any member organization is directly or indirectly interested, unless the written consent of the employer member organization has first been obtained. Where such prior consent is obtained, duplicate reports and monthly statements of all transactions shall be sent to the employer. The employee is also responsible for arranging duplicate reports and monthly statements of all transactions to be sent to the employer where a trading account is with a non-member of the Exchange.

**Rule 752. Statements to Be Sent to Customers**

No member organization shall address confirmations, statements or other communications to a customer of such organization in care of any employee of such organization, or address such

confirmations, statements or other communications to such a customer in his or its own care or in care of any other member or member organization, unless (1) such organization shall have been so directed in writing by such customer, and (2) duplicate copies of such confirmations, statements, and other communications are addressed to such customer (except when this requirement is waived by the Exchange) at his place of business or residence or at some other address designated in writing by such customer.

**Rule 753. Notwithstanding Power of Attorney**

When a non-member customer has given a power of attorney to a member or to a partner of a member or to any other person all confirmations, statements, and other communications with respect to the account of such customer shall be addressed to such customer (except when this requirement is waived by the Exchange) at his place of business or residence or some other address designated in writing by such customer, even if duplicate copies are sent to the person holding the power of attorney.

**Rule 754. Discretionary Power as to Customers' Accounts**

Member organizations shall comply with NASD Rule 2510 as if such rule were part of the Exchange Rules.

**Rule 755. Reserved**

Reserved.

**Rule 756. Reserved  
Amendments.**

**Rule 757. Anti-Money Laundering Compliance Program**

Each member and member organization for which the Exchange is the Designated Examining Authority, shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et. seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member's anti-money laundering program must be approved, in writing, by a representative of its senior management staff. The anti-money laundering programs required by this Rule shall include, at a minimum a requirement to:

- (1) Establish and implement policies, procedures and controls that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;
- (2) Establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;
- (3) Provide for independent testing for compliance to be conducted by member personnel or by a qualified outside party;

- (4) Designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and controls of the program; and
- (5) Provide ongoing training for appropriate personnel.

**Rule 760. Maintenance, Retention and Furnishing of Books, Records and Other Information**

Every member and member organization shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Securities Exchange Act of 1934 and the rules and regulations thereunder. No member or member organization shall refuse to make available to the Exchange such books, records or other information as may be called for under the rules or as may be requested in connection with an investigation by the Exchange.

•• *Supplementary Material:* -----

.01 Without limiting the general provisions of Rule 760, such Rule requires Registered Options Traders who receive electronically-delivered orders directed to them, Specialists and Specialist Units who request that payments be made to order flow providers as part of the Exchange's payment for order flow program, to make, keep current and preserve all books and records relating to payment for order flow arrangements, including but not limited to all records pertaining to the identity of the order flow providers, the rates, and the basis for the amounts they have directed the Exchange to pay to order flow providers (whether on a per contract or flat fee basis). Such books and records shall be made available as may be requested by the Exchange.

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**Rule 761. Supervisory Procedures Relating to ITSFEA and to Prevention of Misuse of Material Nonpublic Information**

(a) Member organizations must maintain written supervisory procedures as required by the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA). Such procedures must be reasonably designed to prevent the misuse of material, non-public information by employees.

(b) In addition to the requirements under ITSFEA, the Exchange herein institutes basic minimum standards for incorporation into ITSFEA related written supervisory procedures for all member organizations. The requirements enumerated below must be included and, together with all related additional written supervisory procedures maintained in accordance with paragraph (a) above, must receive approval by the Exchange. These requirements are not intended to supersede, or be presumed to fulfill, the requirements of ITSFEA. These requirements are instead set forth as separate requirements of the Exchange.

In the instance where a member organization is subject to written supervisory procedures relating to ITSFEA, imposed by another self regulatory organization which is its designated examining

authority ("DEA") the Exchange requirements set forth in paragraph (b) of this Rule will not apply.

- (1) Each new employee of the organization shall be furnished with a copy of the most current version of the Exchange's "Notice of Insider Trading" (Notice), or a document substantially similar to the Notice approved by the DEA for use in this connection. Within ten business days from the first date of employment with the unit, each new employee must sign and return the Notice to the employer. By his signature on the Notice, the employee attests to having carefully read the Notice and agrees to appropriately supply the employer firm with all trading accounts for which such person maintains a beneficial interest, including all personal and household accounts of the employee. Also, by his signature on the Notice, each new employee ensures that delivery of all related account statements will be made directly from the firm(s) maintaining the account to the employer.
- (2) Each organization must complete the Exchange's "ITSFEA Accounts List", comprising all accounts submitted in connection with paragraph (1) above and all proprietary accounts of the unit. Updates to the list must be made within one month of any change and each completed version of the list must be maintained for no less than three years by the organization.
- (3) Each month a supervisory person of the organization is required to make a reasonable review of all activities from the account statements of those accounts reflected on the ITSFEA Accounts List with a view toward identifying the possible misuse of material non-public information. A report must be made promptly to the Exchange's Regulatory staff in the event that any such unusual profits are so identified.

••• *Commentary:* -----

**.01** For purposes of paragraph (b) of this Rule, an employee shall include every person who is compensated directly or indirectly by the member organization for the solicitation or handling of business in securities, including trading securities for the account of the member organization, whether such securities are those dealt in on the Exchange or those dealt over-the-counter.

**.02** Every member or member organization shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the member's business, to prevent the misuse of material nonpublic information by such member or persons associated with such member in violation of the Securities Exchange Act of 1934 and the rules thereunder and the Exchange's own Rules. For purposes of this Commentary section .02, misuse of material nonpublic information means:

- (a) trading in any securities issued by a corporation, partnership, Portfolio Depository Receipts, Index Fund Shares, trust issued receipts, currency trust shares or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of material nonpublic information concerning that corporation, Portfolio Depository Receipt, Index Fund Share, trust issued receipts, currency trust shares, trust or similar entity;
- (b) trading in an underlying security or related options or other derivative securities, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of material nonpublic information concerning imminent transactions in the above; and
- (c) disclosing to another person any material nonpublic information involving a corporation, partnership, Portfolio Depository Receipts, Index Fund Shares, trust issued receipts, currency trust shares or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, for the purpose of facilitating the possible misuse of such material nonpublic information.

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**Rule 762. Telemarketing**

(a) No member or person associated with a member shall:

(1) make outbound telephone calls to the residence of any person for the purpose of soliciting the purchase of securities or related services at any time other than between 8:00 a.m. and 9:00 p.m. local time at the called person's location, without the prior consent of the person; or

(2) make an outbound telephone call to any person for the purpose of soliciting the purchase of securities or related services without disclosing promptly and in a clear and conspicuous manner to the called person the following information:

(i) the identity of the caller and the firm; and

(ii) the telephone number or address at which the caller may be contacted; and

(iii) that the purpose of the call is to solicit the purchase of securities or related services.

(3) The prohibitions of paragraphs (1) and (2) shall not apply to telephone calls by any person associated with a member organization or another associated person acting at the direction of such person for the purpose of maintaining and servicing the accounts of existing customers of the member organization under the control of or assigned to such associated person:

- (i) to an existing customer who, within the preceding twelve months, has effected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or the deposit, was under the control of or assigned to, such associated person:
- (ii) to an existing customer who previously has effected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or deposit, was under the control of or assigned to such associated person, provided that such customer's account has earned interest or dividend income during the preceding twelve months, or
- (iii) to a broker or dealer.

For the purposes of paragraph (3), the term "existing customer" means a customer for whom the member organization, or a clearing member broker or dealer on behalf of such member organization, carries an account. The scope of this rule is limited to the telemarketing calls described herein; the terms of this rule shall not otherwise expressly or by implication impose on members any additional requirements with respect to the relationship between a member and a customer or between a person associated with a member organization and a customer.

(b) Each member organization shall make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations from such member organization or its associated persons.

(c) No member organization or person associated with such member organization shall obtain from a customer or submit for payment a check, draft or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account, without that person's express written authorization, which may include the customer's signature on the negotiable instrument. Such written authorization shall be preserved by the member organization for a period of not less than three years. This provision shall not, however, require maintenance of copies of negotiable instruments signed by customers.

#### **Rule 763. Recommendations to Customers (Suitability)**

(a) In recommending to a customer the purchase, sale or exchange of any security, member organizations shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a non-institutional customer, other than transactions with customers where investments are limited to money market mutual funds, member organizations shall make reasonable efforts to obtain information concerning:

- (1) the customer's financial status;
- (2) the customer's tax status;



- (3) the customer's investment objectives; and
- (4) such other information used or considered to be reasonable by such member organization or its registered representative in making recommendations to the customer.

(c) For purposes of this Rule, the term "non-institutional customer" shall mean a customer that is not (1) a bank, savings and loan association, insurance company, or registered investment company; (2) an investment adviser registered either with the Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (3) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

••• *Commentary:* -----

**.01** Implicit in all member organization and registered representative relationships with customers and others is the fundamental responsibility for fair dealing. Sales efforts must therefore be undertaken only on a basis that can be judged as being within the ethical standards of the Exchange's Rules, with particular emphasis on the requirement to deal fairly with the public.

**.02** This does not mean that legitimate sales efforts in the securities business are to be discouraged by requirements which do not take into account the variety of circumstances which can enter into the member organization/customer relationship. It does mean, however, that sales efforts must be judged on the basis of whether they can be reasonably said to represent fair treatment for the persons to whom the sales efforts are directed, rather than on the argument that they result in profits to customers.

**.03** Some practices that clearly violate a member organization's responsibility for fair dealing are set forth below, as a guide to member organizations:

- (1) **Recommending Speculative Low-Priced Securities.** Recommending speculative low-priced securities to customers without knowledge of or attempt to obtain information concerning the customers' other securities holdings, their financial situation and other necessary data. The principle here is that this practice, by its very nature, involves a high probability that the recommendation will not be suitable for at least some of the persons solicited. This has particular application to high pressure telephone sales campaigns.
- (2) **Excessive Trading Activity.** Excessive activity in a customer's account, often referred to as "churning" or "overtrading." There are no specific standards to measure excessiveness of activity in customer accounts because this must be related to the objectives and financial situation of the customer involved.

(3) Trading in Mutual Fund Shares. Trading in mutual fund shares, particularly on a short-term basis. It is clear that normally these securities are not proper trading vehicles and such activity on its face may raise the question of Rule violation.

(4) Fraudulent Activity

(A) Numerous instances of fraudulent conduct may result in penalties against member organizations. Among some of these activities are:

(i) Fictitious Accounts. Establishment of fictitious accounts in order to execute transactions which otherwise would be prohibited, such as the purchase of hot issues, or to disguise transactions which are against firm policy.

(ii) Discretionary Accounts. Transactions in discretionary accounts in excess of or without actual authority from customers.

(iii) Unauthorized Transactions. Causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon.

(iv) Misuse of Customers' Funds or Securities. Unauthorized use or borrowing of customers' funds or securities.

(B) In addition, other fraudulent activities, such as forgery, non-disclosure or misstatement of material facts, manipulations and various deceptions, may be found to be in violation of Exchange Rules. These same activities are also subject to the civil and criminal laws and sanctions of federal and state governments.

(5) Recommending Purchases Beyond Customer Capability. Recommending the purchase of securities or the continuing purchase of securities in amounts which are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.

**.04** While most member organizations are fully aware of the fairness required in dealing with customers, it is anticipated that the practices enumerated in paragraph .03, which are not all inclusive, will be of future assistance in the training and education of new personnel.

**.05** The Commission has also recognized that brokers and dealers have an obligation of fair dealing in actions under the general anti-fraud provisions of the federal securities laws. The Commission bases this obligation on the principle that when a securities dealer opens his business he is, in effect, representing that he will deal fairly with the public. Certain of the Commission's cases on fair dealing involve practices not covered in the foregoing illustrations. Usually, any breach of the obligation of fair dealing as determined by the Commission under the anti-fraud provisions

of the securities laws could be considered a violation of the Exchange's Rules.

**.05 Fair Dealing with Customers with Regard to Derivative Products or New Financial Products.** The Exchange emphasizes member organizations' obligations for fair dealing with customers when making recommendations or accepting orders for new financial products. As new products are introduced from time to time, it is important that member organizations make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding the products. Member organizations must follow specific guidelines, set forth below, for qualifying the accounts to trade the products and for supervising the accounts thereafter.

**.06 Suitability Obligations to Institutional Customers.** The Exchange's suitability rule is fundamental to fair dealing and is intended to promote ethical sales practices and high standards of professional conduct. Member organizations' responsibilities include having a reasonable basis for recommending a particular security or strategy, as well as having reasonable grounds for believing the recommendation is suitable for the customer to whom it is made. Member organizations are expected to meet the same high standards of competence, professionalism, and good faith regardless of the financial circumstances of the customer.

Rule 763(a) requires that, in recommending to a customer the purchase, sale or exchange of any security, a member organization shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs. This interpretation concerns only the manner in which a member organization determines that a recommendation is suitable for a particular institutional customer. The manner in which a member organization fulfills this suitability obligation will vary depending on the nature of the customer and the specific transaction. Accordingly, this interpretation deals only with guidance regarding how a member organization may fulfill such "customer-specific suitability obligations" under Rule 763(a).

While it is difficult to define in advance the scope of a member organization's suitability obligation with respect to a specific institutional customer transaction recommended by a member organization, the Exchange has identified certain factors which may be relevant when considering compliance with Rule 763(a). These factors are not intended to be requirements or the only factors to be considered but are offered

merely as guidance in determining the scope of a member organization's suitability obligations.

The two most important considerations in determining the scope of a member organization's suitability obligations in making recommendations to an institutional customer are the customer's capability to evaluate investment risk independently and the extent to which the customer is exercising independent judgment in evaluating a member organization's recommendation. A member organization must determine, based on the information available to it, the customer's capability to evaluate investment risk. In some cases, the member organization may conclude that the customer is not capable of making independent investment decisions in general. In other cases, the institutional customer may have general capability, but may not be able to understand a particular type of instrument or its risk. This is more likely to arise with relatively new types of instruments, or those with significantly different risk or volatility characteristics than other investments generally made by the institution. If a customer is either generally not capable of evaluating investment risk or lacks sufficient capability to evaluate the particular product, the scope of a member organization's customer-specific obligations under the suitability rule would not be diminished by the fact that the member organization was dealing with an institutional customer. On the other hand, the fact that a customer initially needed help understanding a potential investment need not necessarily imply that the customer did not ultimately develop an understanding and make an independent investment decision.

A member organization may conclude that a customer is exercising independent judgment if the customer's investment decision will be based on its own independent assessment of the opportunities and risks presented by a potential investment, market factors and other investment considerations. Where the broker-dealer has reasonable grounds for concluding that the institutional customer is making independent investment decisions and is capable of independently evaluating investment risk, then a member organization's obligation to determine that a recommendation is suitable for a particular customer is fulfilled. Where a customer has delegated decision-making authority to an agent, such as an investment advisor or a bank trust department, this interpretation shall be applied to the agent.

A determination of capability to evaluate investment risk independently will depend on an examination of the customer's capability to make its own investment decisions, including the resources available to the customer to make informed decisions. Relevant considerations could include:

- the use of one or more consultants, investment advisers or bank trust departments;
- the general level of experience of the institutional customer in financial markets and specific experience with the type of instruments under consideration;
- the customer's ability to understand the economic features of the security involved;
- the customer's ability to independently evaluate how market developments would affect the security; and
- the complexity of the security or securities involved.

A determination that a customer is making independent investment decisions will depend on the nature of the relationship that exists between the member organization and the customer. Relevant considerations could include:

- any written or oral understanding that exists between the member organization and the customer regarding the nature of the relationship between the member organization and the customer and the services to be rendered by the member organization;
- the presence or absence of a pattern of acceptance of the member organization's recommendations;
- the use by the customer of ideas, suggestions, market views and information obtained from other member organizations or market professionals, particularly those relating to the same type of securities; and
- the extent to which the member organization has received from the customer current comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives.

Member organizations are reminded that these factors are merely guidelines which will be utilized to determine whether a member organization has fulfilled its suitability obligations with respect to a specific institutional customer transaction and that the inclusion or absence of any of these factors is not dispositive of the determination of suitability. Such a determination can only be made on a case-by-case basis taking into consideration all the facts and circumstances of a particular member organization/customer relationship, assessed in the context of a particular transaction.

For purposes of this interpretation, an institutional customer shall be any entity other than a natural person. In determining the applicability of this interpretation to an institutional customer, the Exchange will consider the

dollar value of the securities that the institutional customer has in its portfolio and/or under management. While this interpretation is potentially applicable to any institutional customer, the guidance contained herein is more appropriately applied to an institutional customer with at least \$10 million invested in securities in the aggregate in its portfolio and/or under management.

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**Rule 764. Best Execution and Interpositioning**

(a) (1) In any transaction for or with a customer or a customer of another broker-dealer, a member organization and persons associated with a member organization shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a member organization has used "reasonable diligence" are:

- (A) the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- (B) the size and type of transaction;
- (C) the number of markets checked;
- (D) accessibility of the quotation; and
- (E) the terms and conditions of the order which result in the transaction, as communicated to the member organization and persons associated with the member organization.

(2) In any transaction for or with a customer or a customer of another broker-dealer, no member organization or person associated with a member organization shall interject a third party between the member organization and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.

(b) When a member organization cannot execute directly with a market maker but must employ a broker's broker or some other means in order to insure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

(c) Failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member organization of its obligations. However, the channeling of

customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the member organization acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

(d) A member organization through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating member organization has not fulfilled his obligations under this Rule, will also be deemed to have violated this Rule.

(e) The obligations described in paragraphs (a) through (d) above exist not only where the member organization acts as agent for the account of his customer but also where retail transactions are executed as principal and contemporaneously offset.

••• *Commentary:* -----

**.01** Rule 764(a) requires, among other things, that a member organization or person associated with a member organization comply with Rule 764(a) when customer orders are routed to it from another broker/dealer for execution. This Commentary addresses certain interpretive questions concerning the applicability of the best execution rule.

For the purposes of Rule 764, the term "market" or "markets" is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

A member organization's duty to provide best execution in any transaction "for or with a customer of another broker/dealer" does not apply in instances when another broker/dealer is simply executing a customer order against the member organization's quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the member organization for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the member organization is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the member organization's quote, as opposed to those circumstances in which the member organization is accepting order

flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

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**Rule 765. Prohibition Against Trading Ahead of Customer Orders**

(a) Phlx members and persons associated with a member shall comply with FINRA Rule 5320 as if such Rule were part of Phlx's rules.

(b) For purposes of this Rule:

- (1) References to FINRA Rules 5310, 5320 and 7440 shall be construed as references to Phlx Rules 764, 765 and 3404, respectively;
- (2) The reference in FINRA Rule 5320 to an "institutional account", as defined in FINRA Rule 4512(c), shall be construed to apply to accounts of customers that do not meet the definition of "non-institutional customer", as defined in Phlx Rule 763(c);
- (3) FINRA Rule 5320.02(b) and the reference to FINRA Rule 6420 therein shall be disregarded;
- (4) References to "FINRA" shall be construed as references to "Phlx".

(c) Phlx members and persons associated with a member relying upon the exception set forth in FINRA Rule 5320.03 shall comply with the reporting requirements stated therein. Phlx and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of Phlx. Therefore, Phlx members are complying with Phlx Rule 765 by complying with FINRA Rule 5320.03 as written, including, for example, reporting requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Phlx Rule 765 are being performed by FINRA on behalf of Phlx.

**Rule 771. Excessive Trading of Members**

No member, member organization, partner or stockholder therein shall (1) effect on the Exchange purchases or sales for any account in which he or it is directly or indirectly interested, which purchases or sales are excessive in view of his or its financial resources or in view of the market for such security or (2) execute or cause to be executed on the Exchange purchases or sales of any security for any account with respect to which he or it or another partner or stockholder therein is vested with any discretionary power, which purchases or sales are excessive in view of the financial resources in such account.

- (i) The Exchange expects that all trading by members and member organizations will have a constructive effect on the market by adding to its orderliness and liquidity. In this regard, there are certain kinds of trading activity and trading patterns which should be avoided and which may be excessive in view of the market. Among these are: (a) purchases in substantial quantity and with respect to options on plus or zero plus ticks in



order to establish or increase a position where the members or member organization trading has shown a pattern buying and selling the same listed option on the same day; (b) a succession of purchases by a member or member organization to establish or increase a position at the same or successively higher prices in the same trading session; and (c) purchases to establish or increase a position where a member or member organization has reason to believe that members' transactions may have accelerated the price movement of a product.

**Rule 773. Participation in Joint Accounts**

(a) No member, member organization, or partner or stockholder therein, shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling any security on the Exchange, unless such joint account is reported to and not disapproved by the Exchange.

(b) Such report shall be filed with the Exchange by any member, member organization, or partner or stockholder therein, participating in such joint account before any transactions are effected on the Exchange for such joint account and shall include in substance the following:

- (1) Names of persons participating in such account and their respective interest therein.
- (2) Purpose of such account.
- (3) Amount of commitments in such account.
- (4) A copy of any written agreement or instrument in writing relating to such account.

(c) Every member, member organization, or partner or stockholder therein, who is directly or indirectly interested in any substantial joint account for buying or selling any specific security on the Exchange or in any joint account which actively trades in any security on the Exchange, shall file with the Exchange not later than Monday of each week with respect to every such joint account existing at the close of business on the preceding Wednesday a report containing in substance the following information, unless such information is reported to the Exchange by some other member, member organization or participant therein:

- (1) Name and amount of each security purchased or sold during the week ending on such Wednesday on the Exchange.
- (2) Amount of commitments in such account at the close of business on such Wednesday.
- (3) Any change which renders no longer accurate any portion of the original statement filed.

(d) Every member, member organization, or partner or stockholder therein, who has knowledge of any substantial joint account for buying or selling any specific security on the Exchange or of any joint account which actively trades in any security on the Exchange by reason of transactions executed by or through such member or member organization, for such account, shall file with

the Exchange not later than Monday of each week with respect to every such joint account existing at the close of business on the preceding Wednesday a report containing in substance the following information, if known, unless such information has previously been reported to the Exchange:

- (1) Names of persons participating in such account and their respective interest therein.
- (2) Purpose of such account.
- (3) Name and amount of each security purchased or sold during the week ending on such Wednesday.
- (4) Amount of commitments in such account at the close of business on such Wednesday.

(e) In the event the requirements hereof should be applicable to a security also dealt in on another national securities exchange having requirements substantially equivalent hereto and a member or member organization, or partner or shareholder therein, is a member or member organization of such other exchange and complies with such requirements of such other exchange, then such member or member organization, or partner or shareholder therein, need not comply with the reporting provisions hereof.

#### **Rule 774. Disruptive Quoting and Trading Activity Prohibited**

(a) No member or member organization shall engage in or facilitate disruptive quoting and trading activity on the Exchange, as described in subsections (i) and (ii) of this Rule, including acting in concert with other persons to effect such activity.

- (1) For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the following facts are present:
  - (A) Disruptive Quoting and Trading Activity Type 1:
    - (i) a party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders"); and
    - (ii) following the entry of the Displayed Orders, the level of supply and demand for the security changes; and
    - (iii) the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed; and
    - (iv) following the execution of the Contra-Side Orders, the party cancels the Displayed Orders.
  - (B) Disruptive Quoting and Trading Activity Type 2:
    - (i) a party narrows the spread for a security by placing an order inside the NBBO; and

(ii) the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in paragraph (b)(i).

(2) Applicability. For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the facts listed above are present. Unless otherwise indicated, the order of the events indicating the pattern does not modify the applicability of the Rule. Further, disruptive quoting and trading activity includes a pattern or practice in which the quoting and trading activity is conducted on the Exchange as well as a pattern or practice in which some portion of the quoting or trading activity is conducted on the Exchange and the other portions of the quoting or trading activity are conducted on one or more other exchanges.

#### **Rule 777. Guarantees Not Permitted**

(a) No branch office manager of any member organization, no employee of any member organization engaged in trading in securities for the organization, and no securities salesman of any member organization, shall guarantee the payment of the debit balance, in a customer's account, to his employer or to any other creditor carrying such account, without the prior written consent of the Chief Regulatory Officer.

(b) No branch office manager of any member organization, no employee of any member organization engaged in trading in securities for the organization, and no securities salesman of any member organization, shall guarantee any customer against losses in his account, or in any way represent to any customer that he or his employer will guarantee the customer against such losses.

#### **Rule 782. Manipulative Operations**

(a) No member, member organization, partner or stockholder therein shall directly or indirectly participate in or have any interest in the profits of a manipulative operation or knowingly manage or finance a manipulative operation.

For the purpose of this Rule

- (1) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purpose of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby shall be deemed to be a manipulative operation;
- (2) the soliciting of subscriptions to any such pool, syndicate or joint account or the accepting of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and
- (3) the carrying on margin of either a long or a short position in securities for, or the advancing of credit through loans of money or of securities to, any such pool, syndicate or joint account shall be deemed to be financing a manipulative operation.

(b) No member or member organization shall execute or cause to be executed or participate in an account for which there are executed purchases of any listed security at successively higher prices, or sales of any such security at successively lower prices, for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.

(c) No member or member organization shall, for the purpose of creating or inducing a false or misleading appearance of activity in a listed security or creating or inducing a false or misleading appearance with respect to the market in such security:

- (1) execute any transaction in such security which involves no change in the beneficial ownership thereof; or
- (2) enter any order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties; or
- (3) enter any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

(d) No member or member organization shall execute purchases or sales of listed securities for any account in which such member or member organization is directly or indirectly interested, which purchases or sales are excessive in view of the member's or member organization's financial resources or in view of the market for such security.

(e) No member or member organization shall participate or have any interest, directly or indirectly, in the profits of a manipulative operation or knowingly manage or finance a manipulative operation.

- (1) Any pool, syndicate or joint account organized or used intentionally for the purpose of unfairly influencing the market price of a listed security shall be deemed to be a manipulative operation.
- (2) The solicitation of subscriptions to or the acceptance of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation.
- (3) The carrying on margin of a position in such securities or the advancing of credit through loans to any such pool, syndicate or joint account shall be deemed to be financing a manipulative operation.

(f) No member or member organization shall make any statement or circulate and disseminate any information concerning a listed security which such member knows or has reasonable grounds for believing is false or misleading or would improperly influence the market price of such security.

(g) No member, member organization or person associated with a member or member organization shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling a listed security, unless such joint account is promptly reported to Phlx. The report should contain the following information for each account:

- (1) Name of the account, with names of all participants and their respective interests in profits and losses;
- (2) a statement regarding the purpose of the account;
- (3) name of the member carrying and clearing the account; and
- (4) a copy of any written agreement or instrument relating to the account.

(h) No member or member organization shall offer that a transaction or transactions to buy or sell a listed security will influence the closing transaction on the Consolidated Tape or The Options Price Reporting Authority ("OPRA").

(i) (1) A member or member organization may, but is not obligated to, accept a stop order in a listed security.

(A) A buy stop order is an order to buy which becomes a market order when a transaction takes place at or above the stop price.

(B) A sell stop order is an order to sell which becomes a market order when a transaction takes place at or below the stop price.

(2) A member or member organization may, but is not obligated to, accept stop limit orders in listed securities. When a transaction occurs at the stop price, the stop limit order to buy or sell becomes a limit order at the limit price.

(j) No member, member organization or person associated with a member or member organization shall execute or cause to be executed, directly or indirectly, on a Phlx transaction in a security subject to an initial public offering until such security has first opened for trading on the national securities exchange listing the security, as indicated by the dissemination of an opening transaction in the security by the listing exchange via the Consolidated Tape or OPRA.

### **Rule 783. Report of Financial Arrangements**

(a) *Financial Arrangements*—Each member, member organization general partner and voting stockholder therein shall report to the Exchange, forthwith in a form prescribed by the Exchange, any financial arrangement entered into, either directly or indirectly, with another member or

member organization or general partner, voting shareholder, or any associated person thereof or a non-member. For the purposes of this Rule, a financial arrangement shall be defined as:

1. the direct financing of a member organization's dealings upon the Exchange with the exception of clearing arrangements;
2. any direct equity investment or profit sharing arrangement;
3. any consideration over the amount of \$5,000 that constitutes a gift, loan, salary or bonus; and
4. the guarantee of a trading account with the exception of clearing arrangements

(b) The disclosure of such financial arrangements shall be the responsibility of all members involved. The member organization shall submit to the Exchange notification of the initiation or termination of such financial arrangements within ten (10) business days of the effective date of such arrangements. The notice of termination will constitute the end of the financial arrangement.

(c) Nothing in this rule would require the reporting of agreements for the lending and borrowing of securities, financial arrangements between members affiliated with the same member organization or transactions in publicly traded securities of a member organization.

••• *Supplementary Material:* -----

.01 As used herein, an agreement for the lending of securities shall mean a securities contract or other agreement, including related terms, for the transfer of securities against the transfer of funds, securities or other collateral, with a simultaneous agreement by the transferee to transfer to the transferor against the transfer of funds, securities, or other collateral, upon notice, at a date certain, upon demand, the same or substituted securities.

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**Rule 784. Report of Options**

Each member and member organization shall report to the Exchange such information as may be required with respect to any substantial option relating to listed securities, or securities admitted to unlisted trading privileges on the Exchange, in which such member, member organization or partner or stockholder therein is directly or indirectly interested or of which such member, member organization or partner or stockholder has knowledge by reason of transactions executed by or through such member or organization; provided that this Rule shall not apply to an option which is a matter of record in a prospectus or registration statement filed with the Exchange, or with the Securities and Exchange Commission.

The Exchange may disapprove of the connection of any member, member organization or partner or stockholder therein with any such option which it shall determine to be contrary to the best interest or welfare of the Exchange, or to be likely to create prices which will not fairly reflect market values.

**Rule 785. Automated Submission of Trading Data**

A member or member organization shall submit such of the following trade data elements specified below in such automated format as may be prescribed by the Exchange from time to time, in regard to such transaction or transactions as may be subject of a particular request for information made by the Exchange:

(a) If the transaction was a proprietary transaction effected or caused to be effected by the member or member organization for any account in which such member or member organization, or any member, allied member, approved person, partner, officer, director, or employee thereof, is directly or indirectly interested, such member or member organization shall submit or cause to be submitted the following information:

- 1) Clearing house number, or alpha symbol as used by the member or the member organization submitting the data;
- 2) Clearing house number(s), or alpha symbol(s) as may be used from time to time, of the member(s) or member organization(s) on the opposite side of the transaction;
- 3) Identifying symbol assigned to the security;
- 4) Date transaction was executed;
- 5) Number of shares, or quantity of bonds or options contracts for each specific transaction and whether each transaction was a purchase, sale, short sale, and if an options contract whether open long or short or close long or short;
- 6) Transaction price;
- 7) Account number; and
- 8) Market center where transaction was executed.

(b) If the transaction was effected or caused to be effected by the member or member organization for any customer account, such member organization shall submit or cause to be submitted the following information:

- 1) Data elements (1) through (8) as contained in paragraph (a) above; and
- 2) Customer name, address(es), branch office number, registered representative number, whether order was solicited or unsolicited, date account opened and employer name and the tax identification number(s).

- 3) If transaction was effected from a member broker-dealer customer, whether the broker-dealer was acting as principal or agent on the transaction or transactions that are the subject of the Exchange's request.

(c) In addition to the above trade data elements, a member or member organization shall submit such other information in such automated format as may be prescribed by the Exchange, as may from time to time be required.

(d) The Exchange may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (a) and (b) above be submitted to the Exchange in an automated format.

### **Rule 786. Periodic Reports**

Member organizations shall submit, as required by the Exchange, periodic reports with respect to short positions in securities.

#### **•• Supplementary Material:** -----

**.01 Short Positions**—Member organizations for which the Exchange is the designated examining authority ("DEA") are required to report short positions, including odd-lots, in each stock or warrant traded on the Exchange, and in each other stock or warrant not traded on the Exchange for which short positions are not otherwise reported to another United States securities exchange or association, using such automated format and methods as prescribed by the Exchange. Such reports must include customer and proprietary positions and must be made at such times and covering such time period as may be designated by the Exchange. Member organizations whose short positions have properly been reported to, and are carried by, a non-member clearing organization will be in compliance with this rule if adequate arrangements have been made providing for the clearing organization to properly report such positions to the Exchange or to another United States securities exchange or association.

"Short" positions to be reported are those resulting from "short" sales as defined in Securities and Exchange Commission Rule 200(a) of Regulation SHO, but excluding sales that meet an exception in .02 below. Also, to be excluded are "short" positions carried for other members and member organizations reporting for themselves.

Only one report should be made for each stock or warrant for which there is a short position, if more than one "account" has a short position in the same stock or warrant, the combined aggregate should be reported.

Member organizations for which the Exchange is not the DEA must report short positions to its DEA if such DEA has a requirement for such



reports. If the DEA does not have such a reporting requirement, then such member organization must comply with the provisions of this rule.

**.02** *Exceptions*

(a) Any sale by any person, for an account in which he has an interest, if such person owns the security sold and intends to deliver such security as soon as is possible without undue inconvenience or expense.

(b) Any sale of a security covered by a short sale rule on a national securities exchange (except a sale to a stabilizing bid complying with Rule 104 of Regulation M) effected with the approval of such exchange which is necessary to equalize the price of such security thereon with the current price of such security on another national securities exchange which is the principal exchange market for such security.

(c) Any sale of a security for a special arbitrage account by a person who then owns another security by virtue of which he is, or presently will be, entitled to acquire an equivalent number of securities of the same class as the securities sold; provided such sale, or the purchase which such sale offsets, is effected for the bona fide purpose of profiting from a current difference between the price of security sold and the security owned and that such right of acquisition was originally attached to or represented by another security or was issued to all the holders of any such class of securities of the issuer.

(d) Any sale of a security registered on, or admitted to unlisted trading privileges on, a national securities exchange effected for a special international arbitrage account for the bona fide purpose of profiting from a current difference between the price of such security on a securities market not within or subject to the jurisdiction of the United States and on a securities market subject to the jurisdiction of the United States; provided the seller at the time of such sale knows or, by virtue of information currently received, has reasonable grounds to believe that an offer enabling him to cover such sale is then available to him such foreign securities market and intends to accept such offer immediately.

(e) Any sale by an underwriter, or any member of a syndicate or group participating in the distribution of a security, in connection with an over-allotment of securities, or any lay-off sale by such a person in connection with a distribution of securities through rights or a standby underwriting commitment.

Reserved

**Rule 792. Reserved Amendments.**

**Rule 793. Reserved**  
Reserved

**Rule 794. Reserved Amendments.**

**Rule 795. Reserved Amendments.**

**Rule 796. Underwriting of Securities by Member Organizations**

Member organizations shall submit, as required by the Exchange periodic reports with respect to obligations in respect of security underwritings and net positions resulting therefrom.

**Rule 797. Reserved**

**Rule 798. Reserved**

**Standards for Trading Securities Pursuant to Unlisted Trading Privileges (Rules 800—868)**

**Rule 800. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes in Rules 800-899, unless the context of a Rule or Regulation requires otherwise.

(a) The term "Common Stock" or "common stock" shall include any security of an issuer designated as common stock and any security of an issuer, however designated, which by statute or by its terms, is a common stock (e.g., a security which entitles the holders thereof to vote generally on matters submitted to the issuer's security holders for a vote).

(b) "Public shareholder" or "public holder" does not include officers, directors, controlling shareholders or other owners of family or concentrated holdings, and beneficial holders rather than holders of record will be counted by the Exchange.

**Rule 801. Securities Eligible to be Admitted to Dealings**

Only such securities admitted pursuant to unlisted trading privileges shall be dealt in on the Exchange. The Exchange does not rate or guarantee the quality of any security dealt in on the Exchange. The Exchange lists only standardized options, as defined in Rule 9b-1 under the Exchange Act, issued by a clearing agency that is registered pursuant to Section 17A of the Exchange Act, pursuant to the Rule 1000, 1000A and 1000C Series. The Exchange will not list securities pursuant to any other Rule until the Exchange files a proposed rule change under Section 19(b)(2) under the Exchange Act to amend its Rules to make any changes needed to comply with Rules 10A-3 and 10C-1 under the Exchange Act and to incorporate additional qualitative and other listing criteria, and such proposed rule change is approved by the

Commission. Therefore, the provisions of this Rule 800 Series are not effective to permit the listing of securities.

**Rule 802. Reserved.**

Reserved.

**Rule 803. Listing Standards for Unlisted Trading Privileges**

Issuers should consider whether to list their securities under the Tier I or Tier II listing standards. While all listed issues will be traded pursuant to the identical Exchange auction rules, issues listed pursuant to the Tier I and Tier II standards may be distinguished with respect to blue sky exemptions, transactions reporting symbols, listing fees and maintenance standards. The Exchange will identify and distinguish at all times which securities are listed pursuant to the Exchange's Tier I and Tier II standards. An issuer seeking to list its securities pursuant to the Tier I standards must satisfy one of the two alternative Tier I quantitative criteria and an issuer seeking to list its securities pursuant to the Tier II standards must satisfy the Tier II quantitative criteria. Issuers listing under either criteria must adhere to the policies and procedures and the corporate governance criteria provided in Rules 812 through 853.

The Exchange also places great emphasis upon the level of public interest in the securities of an issuer. Causes for concern may include a low trading volume on another Exchange, lack of dealer interest in the over-the-counter market, unusual geographical concentration of shareholders or a low rate of transfers. Under such circumstances the Exchange may implement a higher distribution standard provided it perceives a relatively low level of investor interest.

The Exchange may extend unlisted trading privileges to any security for which the Exchange has in effect Rules providing for transactions in such class or type of security. Provisions of Rule 803 that govern trading hours, dissemination of information (i.e. Intraday Indicative Value and index value) and surveillance procedures, and that relate to information and prospectus delivery, shall apply to securities traded on an unlisted trading privileges basis.

The listing criteria for Tier I Issues are as follows:

(a) In the case of Common Stock:

- (1) Net Tangible Assets—Total assets (including the value of patents, copyrights and trademarks but excluding the value of goodwill) less total liabilities of at least \$4,000,000.
- (2) Earnings—Pretax income of \$750,000 and net income of at least \$400,000 in its last fiscal year.
- (3) Public Distribution—at least 500,000 publicly held shares and at least 800 public shareholders if the issuer has between 500,000 and 1 million shares publicly held, or at least 400 public shareholders if the issuer has either (i) over 1 million shares publicly held or (ii) over 500,000 shares publicly held and average daily trading

volume in excess of 2,000 shares per day for a six month period preceding the date of application.

(4) Stock Price/Market Value of Shares Publicly Held—\$5 per share on each of the five business days prior to the application date and \$3,000,000 aggregate market value.

(5) Voting Rights—See Rule 812

(b) In the case of Preferred Stock:

(1) Net Tangible Assets and Earnings—The issuer meets the net tangible assets and earnings criteria for common stock and appears to be able to service the dividend requirements of the issue.

(2) Public Distribution—If issuer's common stock is listed and traded on the Exchange (or the NYSE Amex LLC ("NYSE Amex") or New York Stock Exchange):

Preferred Shares Publicly Held	100,000
Aggregate Market Value/Price	\$2,000,000/\$10
If not so listed and traded:	
Preferred Shares Publicly Held	400,000
Public Round-lot Holders	800
Aggregate Market Value/Price	\$4,000,000/\$10

(3) Voting Rights-See Rule 812

(c) In the case of Bonds, Debentures and Notes:

(1) Net Tangible Assets and Earnings—The issuer meets the net tangible assets and earnings criteria for common stock and appears to be able to satisfy interest and principal when due.

(2) Public Distribution—If issuer's common stock is listed and traded on the Exchange (or the New York Stock Exchange or the NYSE Amex ):

Principal Amount/Aggregate Market Value	\$5,000,000
Number of Public Holders	100
If not so listed and traded:	
Principal Amount/Aggregate Market Value	\$20,000,000
Number of Public Holders	100

(3) Current last sale information must be publicly available and independently certifiable with respect to the underlying security into which the bond or debenture is convertible.

- (4) Redeemable issues must provide for redemption pro rata or by lot.
  - (5) In the case of municipal securities, to insure adequate public interest in the debt securities, of non-listed issuers, the following requirements must be met:
    - a. Aggregate market value and principal amount outstanding of at least twenty million dollars (\$20,000,000);
    - b. At least one hundred (100) public beneficial holders of record; and
    - c. The security must be rated as investment grade by at least one nationally recognized rating service.
- (d) In the case of Warrants:
- (1) Net Tangible Assets and earnings—The issuer meets the net tangible assets and earnings criteria for common stock.
  - (2) Public Distribution—The issuer meets the distribution criteria for equity issues. However, if the warrant issue is sold as part of a unit offering consisting of warrants and other securities, a minimum of 500,000 warrants must be publicly held by not less than 400 public holders.
  - (3) The common stock or other securities underlying the warrants must be listed on the Exchange (or on the NYSE Amex or the New York Stock Exchange).
- (e) In the case of Currency, Currency Index and Stock Index Warrants:
1. *Size and Earnings of Warrant Issuer*—Tangible net worth in excess of \$150,000,000 and the issuer meets the earnings criteria set forth in paragraph (a)(2) above.
  2. *Term*—One to five years from date of issuance.
  3. *Distribution/Market Value*—Minimum public distribution of 1,000,000 warrants together with a minimum of 400 public warrant holders and an aggregate market value of \$4,000,000.
  4. *Issuer Standards*—Even if an issuer meets the criteria in subsection 1 above, the Exchange shall not list stock index, currency index or currency warrants of that issuer if the value of such warrants plus the aggregate value, based upon the original issuing price, of all outstanding stock index, currency index and currency warrants of the issuer and its affiliates combined that are listed for trading on a national securities exchange or traded through the facilities of Nasdaq is greater than 25% of the warrant issuer's net worth. If, however, the issuer has a tangible net worth of at least \$250,000,000, this restriction will not apply.

5. *Settlement Value*—With respect to stock index warrants where 25% or more of the value of the underlying index is represented by securities that are traded primarily in the United States, the warrant issuer will be expected to use the U.S. market opening prices of such United States securities in determining settlement values or the closing prices for American style warrants except within 48 hours prior to expiration.
  6. *Automatic Exercise*—All currency and index warrants must include in their terms provisions specifying: (i) the time by which all exercise notices must be submitted, (ii) that all unexercised warrants that are in the money will be automatically exercised on their expiration date or on or promptly following the date on which such warrants are delisted by the Exchange (if such warrant issues have not been listed on another organized securities market in the United States.)
  7. *Foreign Securities*—Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements should not in the aggregate represent more than 20% of the weight of the index. For purposes of this requirement, the term "non-U.S. component securities" means the securities of companies organized outside the United States where at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security and ADRs overlying such other stock over the prior three months occurs outside of the United States.
  8. *Changes in Number of Warrants Outstanding*—The Exchange expects that issuers of stock index warrants either will make arrangements with warrant transfer agents to advise the Exchange immediately of any change in the number of warrants outstanding due to the early exercise of such warrants or will provide this information themselves. With respect to stock index warrants for which 25% or more of the value of the underlying index is represented by securities traded primarily in the United States, such notice shall be filed with the Exchange's Regulatory staff no later than 4:30 p.m. E.T. on the date when the settlement value for such warrants is determined. Such notice shall be filed in such form and manner as may be prescribed by the Exchange from time to time.
  9. *Cash Settlement*—The warrants will be cash-settled in U.S. dollars.
- (f) In the case of Other Securities, the Exchange will consider listing any security not otherwise covered by the criteria set forth in this Rule, provided the issue is otherwise suited for trading on the Exchange. Such issues will be evaluated for listing against the following criteria:
- issue is otherwise suited for auction market trading. Such issues will be evaluated for listing against the following criteria:

#### Initial Listing Requirements

1. Assets/Equity—The issuer shall have total assets in excess of \$100 million and shareholders' equity of at least \$ 10 million.
2. Earnings—The issuer shall have pre-tax income of at least \$750,000 in its last fiscal year or in two of its last three fiscal years. In the case where the issuer is unable to satisfy this earnings criteria, the Exchange generally will require the issuer to have the following: (i) assets in the excess of \$200 million and shareholders' equity of at least \$ 10 million; or (ii) assets in excess of \$ 100 million and shareholders' equity of at least \$20 million.
3. Distribution—Minimum public distribution of 1 million trading units including a minimum of 400 public holders.
4. Aggregate Market Value/Principal Amount—Not less than \$4 million.

Prior to commencement of trading of securities admitted to listing under this paragraph, the Exchange will evaluate the nature and complexity of the issue and, if appropriate, distribute a circular to the members and member organizations providing guidance regarding member firm compliance responsibilities when handling transactions in such securities.

#### Continued Listing Requirements

1. The aggregate market value or principal amount of publicly-held units (except index-linked securities that were listed pursuant to Rule 803(m)) must be at least \$1 million.
2. Delisting or removal proceedings will be commenced (unless the Commission has approved the continued trading) with respect to any index-linked security that was listed pursuant to Rule 803(m)(7)(B) if any of the standards set forth in such Rule are not continuously maintained, except that:
  - (i) the criteria that no single component represent more than 25% of the weight of the index and the five highest weighted components in the index may not represent more than 50% (or 60% for indexes with less than 25 components) of the weight of the Index, need only be satisfied for capitalization weighted and price weighted indexes as of the first day of January and July in each year;
  - (ii) the total number of components in the index may not increase or decrease by more than 33-1/3% from the number of components in the index at the time of its initial listing, and in no event may be less than ten (10) components;
  - (iii) the trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted components in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; and

- (iv) in a capitalization-weighted or modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index have had an average monthly trading volume of at least 1,000,000 shares over the previous six months.
3. With respect to an index-linked security that was listed pursuant to Rule 803(m)(7)(A), delisting or removal proceedings will be commenced (unless the Commission has approved the continued trading of the subject index-linked security) if an underlying index or indexes fails to satisfy the maintenance standards or conditions for such index or indexes as set forth by the Commission in its order under Section 19(b)(2) of the Act approving the index or indexes for the trading of options or other derivatives.
4. With respect to a Commodity-Linked Security that was listed pursuant to Rule 803(m), delisting or removal proceedings will be commenced (unless the Commission has approved the continued trading of the subject security) if any of the listing requirements set forth in Rule 803(m) that were applicable at the time of the initial listing of the security are no longer being met. Notwithstanding the foregoing, a security will not be delisted due to lack of comprehensive surveillance sharing agreements if the Reference Asset has at least 10 components and the Exchange has comprehensive surveillance sharing agreements with respect to at least 90% of the dollar weight of the Reference Asset for which such agreements are otherwise required.
5. Delisting or removal proceedings will also be commenced with respect to any Linked Security listed pursuant to Rule 803(m) (unless the Commission has approved the continued trading of the subject security), under any of the following circumstances:
- (i) if the aggregate market value or the principal amount of the Linked Security issue publicly held is less than \$400,000;
  - (ii) if the value of the index, composite value of the indexes or the value of the Reference Asset (as applicable) is no longer calculated or widely disseminated as required by Rule 803(m)(9);
  - (iii) with respect to a Commodity-Linked Security, if the value of the Reference Asset is no longer calculated or available and a new Reference Asset is substituted, unless the new Reference Asset meets the requirements of this Rule and Rule 803(m); or
  - (iv) if such other event shall occur or condition exists which in the opinion of the Exchange makes further dealings on the Exchange inadvisable.
- (g) In the case of Contingent Value Rights:
- (1) Issuer must meet the financial listing criteria for common stock;



- (2) Issuer total assets in excess of \$100 million;
- (3) Minimum public distribution of 600,000 rights with a minimum of 400 public holders of those rights;
- (4) Aggregate market value of \$18 million; and
- (5) The rights must have a term of at least one year; or
- (6) Contingent value rights have already been approved for trading on another national securities exchange.

Prior to the commencement of trading of securities admitted to listing under this paragraph, the Exchange will distribute a circular to the members and member organizations explaining specific risks associated with CVRs and emphasizing the need to disclose to CVR investors the special characteristics of CVRs and suggesting that transactions in CVRs be recommended only to investors whose accounts have been approved for options trading or after ascertaining that CVRs are suitable for the customer.

(h) In the case of Equity Linked Notes ("ELNs"):

ELNs are limited term debt securities of an issuer where the value of the debt is based in whole or in part on the value of another issuer's common stock, non-convertible preferred stock or sponsored American Depositary Receipts ("ADRs") overlying such equity securities. The Exchange will consider listing or trading ELNs, pursuant to Rule 19b-4(e) under the Securities and Exchange Act of 1934, that meet the following criteria:

(1) *Issuer Listing Standards*

- (A) The issuer of the ELN must be listed on a national securities exchange or the Nasdaq National Market or be an affiliate of a company listed on a national securities exchange or Nasdaq National Market;
- (B) The issuer of the ELN must have a minimum tangible net worth of \$150 million; and
- (C) The market value of the ELN offering when combined with the market value of all the ELN offerings previously completed by the issuer and traded on a national securities exchange or the Nasdaq National Market may not be greater than 25% of the issuer's net worth at the time of the issuance.

(2) *ELN Listing Standards*

- (A) The issue must have a minimum public distribution of one million ELNs;

- (B) There must be a minimum of 400 holders of the ELNs, provided, however, that if the ELNs are traded in \$1,000 denominations, there is no minimum number of holders;
- (C) The issue must have a minimum market value of \$4 million; and
- (D) The ELN must have a term of two to seven years, provided that if the issuer of the underlying security is a non-U.S. company, or if the underlying security is a sponsored ADR, the issue may not have a term of more than three years.

(3) *Linked Security Standards*

- (A) The underlying linked security must have either; (i) a minimum market capitalization of \$3 billion and during the 12 months preceding listing is shown to have traded at least 2.5 million shares in the United States, (ii) a minimum market capitalization of \$1.5 billion and during the 12 months preceding listing is shown to have traded at least 20 million shares in the United States; or (iii) a minimum market capitalization of \$500 million and during the 12 months preceding listing is shown to have traded at least 80 million shares in the United States. If an issuer proposes to list an ELN on an underlying linked stock that does not meet the market capitalization and trading volume standards set forth above, the Exchange, with the concurrence of the staff of the Division of Trading and Markets of the Securities and Exchange Commission, may, after evaluating the trading volume, public float, and market capitalization of the stocks, as well as other relevant factors, determine on a case-by-case basis that it is appropriate to list an ELN on that security.
- (B) The underlying linked security must be issued by a company that has a continuous reporting obligation under the Securities Exchange Act of 1934 (Act), as amended, and the security must be listed on a national securities exchange or the Nasdaq National Market and be subject to last sale reporting pursuant to Rule 11Aa3-1 under the Act; and
- (C) The underlying linked security must be issued by a U.S. company, a non-U.S. company (including a company that is traded in the United States through sponsored ADRs). For purposes of this subsection, a non-U.S. company is any company formed or incorporated outside of the United States. If the issuer of the underlying linked security is a non-U.S. company; (i) the Exchange must have in place a comprehensive surveillance sharing agreement with the primary exchange on which the non-U.S. security is traded, (in the case of an ADR, the primary exchange on which the security underlying the ADR is traded); or (ii) the combined trading volume of the non-U.S. security and other related non-U.S. securities occurring in the U.S. market represents (on a share equivalent basis for any ADRs) at least 50% of the combined worldwide trading volume in the non-U.S. security, other related non-U.S. securities, and other classes of common stock related to the non-U.S. security over the six month period preceding the date of designation; and

(D) If the underlying linked security is the stock of a non-U.S. company which is traded in the U.S. market as a sponsored ADR, ordinary shares or otherwise, then the minimum number of holders of the underlying linked security shall be 2,000.

(4) *Limits on the Number of ELNs Linked to a Particular Security*

(A) The issuance of ELNs relating to any underlying U.S. security may not exceed 5% of the total outstanding shares of such underlying security. The issuance of the ELNs relating to any underlying non-U.S. security or sponsored ADR may not exceed; (i) 2% of the total shares outstanding worldwide provided at least 30% of the worldwide trading volume in the underlying security occurs in the U.S. market during the six month period preceding the date of designation; (ii) 3% of the total worldwide shares outstanding provided at least 50% of the worldwide trading volume in the underlying security occurs in the U.S. market during the six month period preceding the date of designation; or (iii) 5% of the total shares outstanding worldwide provided at least 70% of the worldwide trading volume in the underlying security occurs in the U.S. market during the six month period preceding the date of designation. If a non-U.S. security (including sponsored ADRs) and related securities has less than 30% of the worldwide trading volume occurring in the U.S. market during the six month period preceding the date of listing, then the instrument may not be linked to that non-U.S. security.

If an issuer proposes to list an ELN that relates to more than the allowable percentages set forth above, the Exchange, with the concurrence of the staff of the Division of Trading and Markets of the Securities and Exchange Commission, will evaluate the maximum percentage of ELNs that may be issued on a case-by-case basis.

(5) Equity Linked Notes will be treated as equity instruments.

(6) Prior to the commencement of trading of a particular ELN designated pursuant to this subsection, the Exchange will distribute a circular to the members providing guidance regarding member organization compliance responsibilities (including suitability recommendations and account approval) when handling transactions in ELNs.

(i) Trust Shares

(1) *Definitions.*

(i) Trust Shares. The term "Trust Share" means a security (a) that is based on a unit investment trust ("Trust") which holds the securities which comprise an index or portfolio underlying a series of Trust Shares; (b) that is issued by the Trust in a specified aggregate minimum number in return for a "Portfolio Deposit" consisting of specified numbers of shares of stock plus a cash amount; (c) that, when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the "Portfolio Deposit"; and (d) that pays holders a periodic cash payment

corresponding to the regular cash dividends or distributions declared with respect to the component securities of the stock index or portfolio of securities underlying the Trust Shares, less certain expenses and other charges as set forth in the Trust prospectus.

- (ii) **Reporting Authority.** The term "Reporting Authority" in respect of a particular series of Trust Shares means the Exchange, a wholly-owned subsidiary of the Exchange, an institution (including the Trustee for Trust Shares), or a reporting service designated by the Exchange or its subsidiary or by the exchange that lists a particular series of Trust Shares (if the Exchange is trading such series pursuant to unlisted trading privileges) as the official source for calculating and reporting information relating to such series, including, but not limited to, any current index or portfolio value; the current value of the portfolio of securities required to be deposited to the Trust in connection with issuance of Trust Shares; the amount of any dividend equivalent payment or cash distribution to holders of Trust Shares, net asset value, or other information relating to the creation, redemption or trading of Trust Shares.
  - (iii) The term "US Component Stock" shall mean an equity security that is registered under Sections 12(b) or 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") or an American Depository Receipt the underlying equity security of which is registered under Sections 12(b) or 12(g) of the Exchange Act.
  - (iv) The term "Non-US Component Stock" shall mean an equity security that is not registered under Sections 12(b) or 12(g) of the Exchange Act and that is issued by an entity that (a) is not organized, domiciled or incorporated in the United States, and (b) is an operating company (including real estate investment trusts (REITs) and income trusts, but excluding investment trusts, unit trusts, mutual funds, and derivatives).
- (2) *Applicability.* This Rule is applicable only to Trust Shares. Except to the extent inconsistent with this Rule, or unless the context otherwise requires, the provisions of the By-Laws and all other Rules and policies of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Trust Shares are included within the definition of "security" or "securities" as such terms are used in the By-Laws and Rules of the Exchange.
- (3) *Disclosure Requirements.* Members and member organizations shall provide to all purchasers of a series of Trust Shares a written description of the terms and characteristics of such securities, in a form approved by the Exchange, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to a series of Trust Shares that is provided to customers or the public. Any other written materials provided by a member or member organization to customers or the public making specific reference to a series of Trust Shares as an investment vehicle must include a statement in

substantially the following form: "A circular describing the terms and characteristics of (the series of Trust Shares) is available from your broker. It is recommended that you obtain and review such circular before purchasing (the series of Trust Shares). In addition, upon request you may obtain from your broker a prospectus for (the series of Trust Shares)."

A member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase a series of Trust Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to members and member organizations under this Rule.

Upon request of a customer, a member or member organization shall also provide a prospectus for the particular series of Trust Shares.

(4) *Designation of an Index or Portfolio.* The trading of Trust Shares based on one or more stock indexes or securities portfolios, whether by listing or pursuant to unlisted trading privileges, shall be considered on a case by case basis. The Trust Shares based on each particular stock index or portfolio shall be identified as a separate series and shall be identified by a unique symbol. The stocks that are included in an index or portfolio on which Trust Shares are based shall be selected by the Exchange or its agent, a wholly-owned subsidiary of the Exchange, or by such other person as shall have a proprietary interest in and authorized use of such index or portfolio, and may be revised from time to time as may be deemed necessary or appropriate to maintain the quality and character of the index or portfolio.

(5) *Initial and Continued Listing and/or Trading.* A Trust upon which a series of Trust Shares are based will be listed and traded on the Exchange subject to application of the following criteria:

(A) *Commencement of Trading* - For each Trust, the Exchange will establish a minimum number of Trust Shares required to be outstanding at the time of commencement of trading on the Exchange.

(B) *Continued Trading* - Following the initial twelve month period following formation of a Trust and commencement of trading on the Exchange, the Exchange will consider the suspension of trading in or removal from listing of a Trust upon which a series of Trust Shares is based under any of the following circumstances:

(i) if the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Shares for 30 or more consecutive trading days; or

(ii) if the value of the index or portfolio of securities on which the Trust is based is no longer calculated or available; or

- (iii) if such other event shall occur or condition exists which in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.
- (C) Termination of Trust - Upon termination of a Trust, the Exchange requires that Trust Shares issued in connection with such Trust be removed from Exchange listing or have their unlisted trading privileges terminated. A Trust may terminate in accordance with the provisions of the Trust prospectus, which may provide for termination if the value of securities in the Trust falls below a specified amount.
- (D) The Exchange will obtain a representation from the issuer of each series of Trust Shares that the net asset value per share for the series will be calculated daily and will be made available to all market participants at the same time.
- (6) *Term.* The stated term of the Trust shall be as stated in the Trust prospectus. However, a Trust may be terminated under such earlier circumstances as may be specified in the Trust prospectus.
- (7) *Trustee.* The trustee must be a trust company or banking institution having substantial capital and surplus and the experience and facilities for handling corporate trust business. In cases where, for any reason, an individual has been appointed as trustee, a qualified trust company or banking institution must be appointed co-trustee.
- (8) *Voting.* Voting rights shall be as set forth in the Trust prospectus. The Trustee of a Trust may have the right to vote all of the voting securities of such Trust.
- (9) *Limitation of Exchange Liability.* Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current index or portfolio value; the current value of the portfolio of securities required to be deposited to the Trust; the amount of any dividend equivalent payment or cash distribution to holders of Trust Shares; net asset value; or other information relating to the creation, redemption or trading of Trust Shares, resulting from any negligent act or omission by the Exchange, or the Reporting Authority, or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange or its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reports of transactions in one or more underlying securities. The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of Trust Shares or any underlying index or data included therein and the Exchange makes no express or implied warranties, and disclaims all warranties of merchantability or fitness for a particular purpose with respect to Trust Shares or any underlying index or data included therein. This limitation of liability shall be in addition to any other limitation contained in the Exchange's Limited Liability Company Agreement or By-Laws or elsewhere in the Rules.

- (10) *Listing Fees and Other Rules.* The Exchange may, in its discretion, waive listing fees for any issuer of any particular series of Trust Shares listed on the Exchange pursuant to Rule 803(i). The provisions of Rules 847, 849, 850 and 851 do not apply to unit investment trusts issuing Trust Shares listed on the Exchange pursuant to Rule 803(i), or to the trustees or the sponsors thereof. In addition, consideration of the suspension of trading in or removal from listing of any Trust Shares pursuant to Rule 810 will be made pursuant to the criteria set forth in section 5(B) of this Rule 803(i) rather than the specific criteria set forth in subsections (1) through (5) of Rule 810(a).
- (11) The Exchange may approve a series of Trust Shares for listing and trading pursuant to Rule 19b-4(e) under the Exchange Act provided the criteria described in paragraphs (a), (b) or (c) below and (d) through (l) are satisfied:
- (a) *Series of Trust Shares that are based on an Index or Portfolio comprised solely of US Component Stocks.* Upon the initial listing of a series of Trust Shares on the Exchange, the component stocks of an index or portfolio underlying such series of Trust Shares shall meet the following criteria as of the date of the initial deposit of cash and securities into the trust:
- (i) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio shall each have a minimum market value of at least \$75 million;
  - (ii) The component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each must have a minimum monthly trading volume during each of the last six months of at least 250,000 shares;
  - (iii) The most heavily weighted component stock cannot exceed 30% of the weight of the index or portfolio, and the five most heavily weighted component stocks cannot exceed 65% of the weight of the index or portfolio;
  - (iv) The underlying index or portfolio must include a minimum of 13 component stocks; and
  - (v) All securities in an underlying index or portfolio must be US Component Stocks listed on a national securities exchange and shall be NMS Stocks.
- (b) *Eligibility Criteria for series of Trust Shares that are based on an Index or Portfolio comprised solely of Non-US Component Stocks or Both US and Non-US Component Stocks.* Upon the initial listing of a series of Trust Shares, the component stocks of an index or portfolio underlying such series of Trust Shares shall meet the following criteria as of the date of the initial deposit of securities to the fund in connection with the initial issuance of shares of such fund:

- (i) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each must have a minimum market value of at least \$100 million;
  - (ii) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each must have a minimum worldwide monthly trading volume during each of the last six months of at least 250,000 shares;
  - (iii) the most heavily weighted component stock may not exceed 25% of the weight of the index or portfolio, and the five most heavily weighted component stocks may not exceed 60% of the weight of the index or portfolio;
  - (iv) the index or portfolio must include a minimum of 20 component stocks; and
  - (v) each US Component Stock must be listed on a national securities exchange and must be an NMS Stock, and each Non-US Component Stock must be listed and traded on an exchange that has last-sale reporting.
- (c) *Index or portfolio approved in connection with options or other derivative securities.* Upon the initial listing of a series of Trust Shares, pursuant to Rule 19b-4(e) under the Exchange Act, the index or portfolio underlying such series shall have been reviewed and approved for trading of options, Trust Shares, Index Fund Shares, Index-Linked Exchangeable Notes or Index-Linked Securities by the Commission under Section 19(b)(2) of the Exchange Act and rules thereunder and the conditions set forth in the Commission's approval order, including comprehensive surveillance sharing agreements with respect to Non-US Component Stocks and requirements regarding dissemination of information continue to be satisfied. Each component stock of the index or portfolio shall be either (I) a US Component Stock that is listed on a national securities exchange and is an NMS Stock or (II) a Non-US Component Stock that is listed and traded on an exchange that has last-sale reporting.
- (d) *Index Methodology and Calculation.*
- (i) If the index is maintained by a broker-dealer or fund advisor, the broker-dealer or fund advisor shall erect a "fire wall" around the personnel who have access to information concerning changes and adjustments to the index and the index shall be calculated by a third party who is not a broker-dealer or fund advisor; and
  - (ii) Any advisory committee, supervisory board, or similar entity that advises a Reporting Authority or a major market data vendor or that makes decisions on the index or portfolio composition, methodology and related matters, must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the applicable index.



- (e) *Disseminated Information.* If a series of Trust Shares is listed for trading, or trades pursuant to unlisted trading privileges, on the Exchange in reliance upon Rule 19b-4(e) under the Exchange Act, and invests solely in US Component Stocks, the current value of the underlying index must be widely disseminated by one or more major market data vendors or disseminated over the consolidated tape at least every 15 seconds during trading hours on the Exchange. If a series of Trust Shares is listed for trading on the Exchange in reliance upon Rule 19b-4(e) under the Exchange Act and invest in both US Component Stocks and Non-US Component Stocks or only in Non-US Component Stocks, the current value of the underlying index must be widely disseminated by one or more major market data vendors or disseminated over the consolidated tape at least every 60 seconds during trading hours on the Exchange. If the index value does not change during some or all of the period when trading is occurring on the Exchange (for example, for indexes of Non-US Component Stocks because of time zone differences or holidays in the countries where such indexes' component stocks trade), then the last official calculated index value must remain available throughout Exchange trading hours.

There must be disseminated for each series of Trust Shares, whether listed or traded pursuant to unlisted trading privileges, an estimate, updated at least every 15 seconds, of the value of a share of each series (the "Intraday Indicative Value") during the Core Session on PSX, and, if applicable, during the Pre Market Session on PSX. This may be based, for example, upon current information regarding the required deposit of securities plus any cash amount to permit the creation of new shares of the series or upon the index value. The Intraday Indicative Value will be updated at least every 15 seconds during the Core Session on PSX, and, if applicable, during the Pre Market Session on PSX, to reflect changes in the exchange rate between the U.S. dollar and the currency in which any component stock is denominated. If the Intraday Indicative Value does not change during some or all of the period when trading is occurring on PSX, then the last official calculated Intraday Indicative Value must remain available throughout PSX's trading hours.

- (f) *Initial Shares Outstanding.* A minimum of 100,000 shares of a series of Trust Shares is required to be outstanding at start-up of trading on the Exchange.
- (g) *Trading Increment.* The minimum trading increment is set in Rule 125.
- (h) *Listing Fees.* The original listing fee is \$7,500 for each series of Trust Shares. The annual maintenance listing fee will be \$1,250 for each series of Trust Shares.
- (i) *Surveillance Procedures.* The Exchange will implement written surveillance procedures for Trust Shares.
- (j) *Applicability of Other Rules.* All other provisions of Rule 803(i) will apply to all series of Trust Shares.
- (k) *Creation and Redemption.* For Trust Shares listed pursuant to (i)(11)(b) or (c) above, the statutory prospectus or the application for exemption from provisions of

the Investment Company Act of 1940 for the series of Trust Shares must state that the series of Trust Shares must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.

(l) *Hours of Trading.* Trading will occur on PSX during the times set in Rule 3217. In addition, the Exchange may designate each series of Trust Shares for trading during the Pre Market Session and/or the Post Market Session; provided, however that the Exchange will not designate a series of Trust Shares for Pre Market or Post Market trading unless the requirements of Phlx Rule 803(i)(11)(e) are satisfied. If there is no overlap with the trading hours of the primary market(s) trading the underlying components of a series of Trust Shares, the Exchange may designate such series for Pre Market trading as long as the last official calculated Intraday Indicative Value remains available.

(j) Trust Issued Receipts.

(1) *Applicability.* Rule 803(j) is applicable only to Trust Issued Receipts. Except to the extent inconsistent with Rule 803(j) or unless the context otherwise requires, the provisions of the By-Laws and all other Rules and policies of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Trust Issued Receipts are included within the definition of "security" or "securities" as such terms are used in the By-Laws and Rules of the Exchange.

(2) *Definitions.* The following terms as used in the Rules shall, unless the context otherwise requires, have the meanings herein specified:

(A) Trust Issued Receipts. The term "Trust Issued Receipt" means a security (i) that is issued by a trust ("Trust") which holds specified securities deposited with the Trust; (ii) that, when aggregated in some specified minimum number, may be surrendered to the Trust by the beneficial owner to receive the securities; and (iii) that pays beneficial owners dividends and other distributions on the deposited securities, if any are declared and paid to the trustee by an issuer of the deposited securities.

(B) Reporting Authority. The term "Reporting Authority" in respect of a particular series of Trust Issued Receipts means the Exchange, a wholly-owned subsidiary of the Exchange, an institution (including the Trustee for that series of Trust Issued Receipts), or a reporting service designated by the Exchange or its subsidiary or by the exchange that lists a particular series of Trust Issued Receipts (if the Exchange is trading the particular series of Trust Issued Receipts pursuant to unlisted trading privileges) as the official source for calculating and reporting information relating to such series of Trust Issued Receipts, including, but not limited to, any current basket or portfolio value; the current value of the basket or portfolio of securities required to be deposited to the Trust in connection with issuance of that series of

Trust Issued Receipts; the amount of any dividend equivalent payment or cash distribution to holders of that series of Trust Issued Receipts, net asset value, or other information relating to the creation, redemption or trading of that series of Trust Issued Receipts.

- (3) *Prospectus*. Members and member organizations shall provide to all purchasers of newly issued Trust Issued Receipts a prospectus for the series of Trust Issued Receipts.
- (4) Reserved.
- (5) *Designation*. The Exchange may list and trade Trust Issued Receipts based on one or more securities. The Trust Issued Receipts based on particular securities shall be designated as a separate series and shall be identified by a unique symbol. The securities that are included in a series of Trust Issued Receipts shall be selected by the Exchange or its agent, a wholly-owned subsidiary of the Exchange, or by such other person as shall have a proprietary interest in such Trust Issued Receipts.
- (6) *Initial and Continued Listing*. Trust Issued Receipts will be listed and traded on the Exchange subject to application of the following criteria:
  - (A) *Initial Listing*. For each Trust, the Exchange will establish a minimum number of Trust Issued Receipts required to be outstanding at the time of commencement of trading on the Exchange.
  - (B) *Continued Listing*. Following the initial twelve month period after formation of a Trust and commencement of trading on the Exchange, the Exchange will consider the suspension of trading in or removal from listing of a Trust upon which a series of Trust Issued Receipts is based under any of the following circumstances:
    - (i) if the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;
    - (ii) if the Trust has fewer than 50,000 receipts issued and outstanding;
    - (iii) if the market value of all receipts issued and outstanding is less than \$1,000,000; or
    - (iv) if such other event shall occur or condition exists which in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.
  - (C) Upon termination of a Trust, the Exchange requires that Trust Issued Receipts issued in connection with such Trust be removed from Exchange listing. A Trust may terminate in accordance with the provisions of the Trust prospectus, which

may provide for termination if the value of securities in the Trust falls below a specified amount.

- (7) *Term.* The stated term of the Trust shall be stated in the Trust prospectus. However, a Trust may be terminated under such earlier circumstances as may be specified in the Trust prospectus.
- (8) *Trustee.* The Trustee must be a trust company or banking institution having substantial capital and surplus and the experience and facilities for handling corporate trust business. In cases where, for any reason, an individual has been appointed as trustee, a qualified trust company or banking institution must be appointed co-trustee.
- (9) *Voting.* Voting rights shall be as set forth in the Trust prospectus.
- (10) *Limitation of Liability.* Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current basket or portfolio value, the current value of the portfolio of securities required to be deposited to the Trust; the amount of any dividend equivalent payment or cash distribution to holders of Trust Issued Receipts; net asset value; or other information relating to the creation, redemption or trading of Trust Issued Receipts, resulting from any negligent act or omission by the Exchange, or the Reporting Authority, or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange or its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reports of transactions in one or more underlying securities. The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of Trust Issued Receipts or any underlying basket or portfolio of securities or data included therein and the Exchange makes no express or implied warranties, and disclaims all warranties of merchantability or fitness for a particular purpose with respect to Trust Issued Receipts or any underlying basket or portfolio of securities or data included therein. This limitation of liability shall be in addition to any other limitation contained in the Exchange's Limited Liability Company Agreement or By-Laws or elsewhere in the Rules.
- (11) *Listing Fees and Other Rules.* The Exchange may, in its discretion, waive listing fees for any issuer of Trust Issued Receipts listed on the Exchange pursuant to Rule 803(j). The provisions of Rules 847, 849, 850 and 851 do not apply to trusts issuing Trust Issued Receipts listed on the Exchange pursuant to Rule 803(j), or to the trustees or the sponsors thereof. In addition, consideration of the suspension of trading in or removal from listing of any Trust Issued Receipts pursuant to Rule 810 will be made pursuant to the criteria set forth in section 6(B) of this Rule 803(j) rather than the specific criteria set forth in subsections (1) through (5) of Rule 810(a).

••• *Commentary:* -----

**.01** The Exchange may approve a series of Trust Issued Receipts for listing and trading on the Exchange pursuant to Rule 19b-4(e) under the Securities Exchange Act of 1934 (Exchange Act), provided each of the component securities satisfies the following criteria:

Eligibility Criteria for Component Securities Represented by a series of Trust Issued Receipts:

- (i) each component security must be registered under Section 12 of the Exchange Act;
- (ii) each component security must have a minimum public float of at least \$150 million;
- (iii) each component security must be listed on a national securities exchange or traded through the facilities of Nasdaq and be a reported national market system security;
- (iv) each component security must have an average daily trading volume of at least 100,000 shares during the preceding sixty-day trading period;
- (v) each component security must have an average daily dollar value of shares traded during the preceding sixty-day trading period of at least \$1 million; and
- (vi) the most heavily weighted component security may not initially represent more than 20% of the overall value of the Trust Issued Receipt.

**.02** The eligibility requirements for component securities that are represented by a series of Trust Issued Receipts and that became part of the Trust Issued Receipt when the security was either: (a) distributed by a company already included as a component security in the series of Trust Issued Receipts; or (b) received in exchange for the securities of a company previously included as a component security that is no longer outstanding due to a merger, consolidation, corporate combination or other event, shall be as follows:

- (i) the component security must be listed on a national securities exchange or traded through facilities of Nasdaq and be a reported national market system security;
- (ii) the component security must be registered under section 12 of the Exchange Act; and;
- (iii) the component security must have a Standard & Poor's Sector Classification that is the same as the Standard and Poor's Sector Classification represented by component securities included in the Trust Issued Receipt at the time of the distribution or exchange.

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(k) Basket Linked Notes ("BLNs").

Income instruments which are linked, in whole or in part, to the market performance of up to thirty (30) common stocks or non-convertible preferred stocks will be considered for listing provided:

- (1) Both the issue and the issuer of such security meet the criteria established in Rule 803(f) and the issue has a minimum term of one year.
- (2) The issuer of such security will be expected to have a minimum tangible net worth in excess of \$250,000,000, and to otherwise substantially exceed the earnings requirement set forth in Rule 803(a). In the alternative, the issuer will be expected: (i) to have a minimum tangible net worth of \$150,000,000 and to otherwise substantially exceed the earnings requirements set forth in Rule 803(a), and (ii) not to have issued such securities where the original issue price of all the issuer's other equity and basket linked note offerings (combined with equity and basket linked note offerings of the issuer's affiliates) listed on a national securities exchange or traded through the facilities of Nasdaq exceeds 25% of the issuer's net worth.
- (3) Each underlying linked stock either: (i) has a minimum market capitalization of \$3 billion and during the 12 months preceding listing is shown to have traded at least 2.5 million shares, (ii) has a minimum market capitalization of \$1.5 billion and during the 12 months preceding listing is shown to have traded at least 10 million shares; or (iii) has a minimum market capitalization of \$500 million and during the 12 months preceding listing is shown to have traded at least 15 million shares.
- (4) Each issuer of an underlying stock to which the instrument is to be linked shall be a 1934 Act reporting company which is listed on a national securities exchange or is traded through the facilities of a national securities system and is subject to last sale reporting. In addition, if any underlying security to which the instrument is to be linked is the stock of a non-U.S. company which is traded in the U.S. market as sponsored American Depositary Shares ("ADS"), ordinary shares or otherwise, then for each such security the Exchange shall either: (i) have in place a comprehensive surveillance sharing agreement with the primary exchange on which each non-U.S. security is traded, (in the case of an ADS, the primary exchange on which the security underlying the ADS is traded); or (ii) the combined trading volume of each non-U.S. security and other related non-U.S. securities occurring in the U.S. market or in markets with which the Exchange has in place a comprehensive surveillance sharing agreement represents (on a share equivalent basis for any ADS) at least 50% of the combined worldwide trading volume in each non-U.S. security, other related non-U.S. securities, and other classes of common stock related to each non-U.S. security over the six month period preceding the date of listing; or (iii)(a) the combined trading volume of each non-U.S. security and other related non-U.S. securities occurring in the U.S. market represents (on a share equivalent basis) at least 20% of the combined world-wide trading volume in each non-U.S. security and in other related non-U.S. securities over the six month period preceding the date of selection of the non-U.S.

security for a BLN listing, (b) the average daily trading volume for each non-U.S. security in the U.S. markets over the six months preceding the selection of each non-U.S. security for a BLN listing is 100,000 or more shares, and (c) the trading volume is at least 60,000 shares per day in the U.S. markets on a majority of the trading days for the six months preceding the date of selection of each non-U.S. security for a BLN listing.

(5) Each underlying linked stock to which the instrument relates may not exceed 5% of the total outstanding common shares of such entity, provided however, if any underlying linked stock is a non-U.S. security represented by ADSs, common shares, or otherwise, then for each such linked security the instrument may not exceed: (i) 2% of the total shares outstanding worldwide provided at least 20% of the worldwide trading volume in each non-U.S. security and related non-U.S. security during the six month period preceding the date of listing occurs in the U.S. market; (ii) 3% of the total worldwide shares outstanding provided at least 50% of the worldwide trading volume in each non-U.S. security and related non-U.S. security during the six month period preceding the date of listing occurs in the U.S. market; and (iii) 5% of the total shares outstanding worldwide provided at least 70% of the worldwide trading volume in each non-U.S. security and related non-U.S. security during the six month period preceding the date of listing occurs in the U.S. market. If any non-U.S. security and related securities has less than 20% of the worldwide trading volume occurring in the U.S. market during the six month period preceding the date of listing, then the instrument may not be linked to that non-U.S. security. If an issuer proposes to list a BLN that relates to more than the allowable percentages set forth above, the Exchange, with the concurrence of the staff of the Division of Trading and Markets of the Securities and Exchange Commission, will evaluate the maximum percentage of BLNs that may be issued on a case-by-case basis.

(6) BLNs will be treated as equity instruments.

(7) If any underlying security to which the instrument is to be linked is the stock of a non-U.S. company which is traded in the U.S. market as a sponsored ADS, ordinary shares or otherwise, then the minimum number of holders of such underlying linked security shall be 2,000.

(I) Index Fund Shares.

(1) *Applicability.* This Rule 803(1) is applicable only to Index Fund Shares. Except to the extent inconsistent with this Rule 803(1), or unless the context otherwise requires, the provisions of the Rules and policies of the Exchange shall be applicable to the trading on the Exchange of Index Fund Shares. Index Fund Shares are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange.

(2) *Definitions.* The following terms shall have the meanings specified herein:

- (A) The term "Index Fund Share" means a security (I) that is issued by an open-end management investment company based on a portfolio of stocks that seeks to provide investment results that correspond generally to the price and yield performance of specified foreign or domestic stock index; (II) that is issued by such an open-end management investment company in a specified aggregate minimum number in return for a deposit of specified numbers of shares of stock and/or a cash amount with a value equal to the next determined net asset value; and (III) that, when aggregated in the same specified minimum number, may be redeemed at a holder's request by such open-end investment company which will pay to the redeeming holder the stock and/or cash with a value equal to the next determined net asset value.
- (B) The term "Reporting Authority" with respect to a particular series of Index Fund Shares means the Exchange, or an institution or reporting service designated by the Exchange, as the official source for calculating and reporting information relating to such series, including, but not limited to, any current index or portfolio value; the current value of the portfolio of any securities required to be deposited in connection with issuance of Index Fund Shares; the amount of any dividend equivalent payment or cash distribution to holders of Index Fund Shares, net asset value, or other information relating to the issuance, redemption or trading of Index Fund Shares. Nothing in this section shall imply that an institution or reporting service that is the source for calculating and reporting information relating to Index Fund Shares must be designated by the Exchange, the term "Reporting Authority" shall not refer to an institution or reporting service not so designated.
- (C) The term "US Component Stock" shall mean an equity security that is registered under Sections 12(b) or 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") or an American Depositary Receipt the underlying equity security of which is registered under Sections 12(b) or 12(g) of the Exchange Act.
- (D) The term "Non-US Component Stock" shall mean an equity security that is not registered under Sections 12(b) or 12(g) of the Exchange Act and that is issued by an entity that (a) is not organized, domiciled or incorporated in the United States, and (b) is an operating company (including real estate investment trusts (REITs) and income trusts, but excluding investment trusts, unit trusts, mutual funds, and derivatives).
- (3) *Disclosure.* Unless Rule 803(1)(7) applies, the Exchange requires that members and member organizations provide to all purchasers of newly issued Index Fund Shares a prospectus for the series of Index Fund Shares.
- (4) *Designation.* The trading of Index Fund Shares based on one or more securities, whether by listing or pursuant to unlisted trading privileges, shall be considered on a case-by-case basis. Each issue of Index Fund Shares based on each particular stock index or portfolio shall be designated as a separate series and shall be identified by a unique symbol. The securities that are included in a series of Index Fund Shares shall



be selected by the Exchange or its agent, a wholly-owned subsidiary of the Exchange, or by such other person, as shall have authorized use of such index. Such index may be revised from time to time as may be deemed necessary or appropriate to maintain the quality and character of the index.

(5) *Initial and Continued Listing and/or Trading.* Each series of Index Fund Shares will be listed and traded on the Exchange subject to application of the following criteria:

(A) *Commencement of Trading.* For each Series, the Exchange will establish a minimum number of Index Fund Shares required to be outstanding at the time of commencement of trading on the Exchange.

(B) *Continued Trading.* Following the initial twelve month period following commencement of trading on the Exchange of a series of Index Fund Shares, the Exchange will consider the suspension of trading or the removal from listing for such series under any of the following circumstances: (I) If there are fewer than 50 beneficial holders of the series of Index Fund Shares for 30 or more consecutive trading days; (II) If the value of the index or portfolio of securities on which the series of Index Fund Shares is based is no longer calculated or available; or (III) If such other event shall occur or condition exists which in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

Upon termination of an open-end management investment company, the Exchange requires that Index Fund Shares issued in connection with such entity be removed from Exchange listing.

(C) *Voting.* Voting rights shall be as set forth in the applicable open-end management investment company prospectus.

(D) The Exchange will obtain a representation from the issuer of each series of Index Fund Shares that the net asset value per share for the series will be calculated daily and will be made available to all market participants at the same time.

(6) *Listing Pursuant to SEC rule 19b-4(e).* The Exchange may approve a series of Index Fund Shares for listing and trading pursuant to Rule 19b-4(e) under the Exchange Act provided the criteria described in paragraph (A), (B) or (C) below and (D)-(K) are satisfied:

(A) *Eligibility Criteria for series of Index Fund Shares that are based on an Index or Portfolio comprised solely of US Component Stocks.* Upon the initial listing of a series of Index Fund Shares the component stocks of an index or portfolio underlying a series of Index Fund Shares shall meet the following criteria as of the date of the initial deposit of securities to the fund in connection with the initial issuance of shares of such fund: (I) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each shall have a minimum market value of at least \$75 million; (II) Component stocks that in the aggregate

account for at least 90% of the weight of the index or portfolio each must have a minimum monthly trading volume during each of the last six months of at least 250,000 shares; (III) The most heavily weighted component stock cannot exceed 30% of the weight of the index or portfolio, and the five most heavily weighted component stocks cannot exceed 65% of the weight of the index or portfolio; (IV) The underlying index or portfolio must include a minimum of 13 component stocks; and (V) All securities in an underlying index or portfolio must be US Component Stocks listed on a national securities exchange and shall be NMS Stocks.

- (B) Eligibility Criteria for series of Index Fund Shares that are based on an index or portfolio comprised solely of Non-US Component Stocks or Both US and Non-US Component Stocks. Upon the initial listing of a series of Index Fund Shares, the component stocks of an index or portfolio underlying such series of Index Fund Shares shall meet the following criteria as of the date of the initial deposit of securities to the fund in connection with the initial issuance of shares of such fund: (I) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each must have a minimum market value of at least \$100 million; (II) Component stocks that in the aggregate account for at least 90% of the weight of the index or portfolio each must have a minimum worldwide monthly trading volume during each of the last six months of at least 250,000 shares; (III) the most heavily weighted component stock may not exceed 25% of the weight of the index or portfolio, and the five most heavily weighted component stocks may not exceed 60% of the weight of the index or portfolio; (IV) the index or portfolio must include a minimum of 20 component stocks; and (V) each US Component Stock must be listed on a national securities exchange and must be an NMS Stock, and each Non-US Component Stock must be listed and traded on an exchange that has last-sale reporting.
- (C) Index or portfolio approved in connection with options or other derivative securities. Upon the initial listing of a series of Index Fund Shares, pursuant to Rule 19b-4(e) under the Exchange Act, the index or portfolio underlying such series shall have been reviewed and approved for trading of options, Trust Shares, Index Fund Shares, Index-Linked Exchangeable Notes or Index-Linked Securities by the Commission under Section 19(b)(2) of the Exchange Act and rules thereunder and the conditions set forth in the Commission's approval order, including comprehensive surveillance sharing agreements with respect to Non-US Component Stocks and requirements regarding dissemination of information continue to be satisfied. Each component stock of the index or portfolio shall be either (I) a US Component Stock that is listed on a national securities exchange and is an NMS Stock or (II) a Non-US Component Stock that is listed and traded on an exchange that has last-sale reporting.
- (D) Index Methodology and Calculation. (I) If the index is maintained by a broker-dealer or fund advisor, the broker-dealer or fund advisor shall erect a "fire wall" around the personnel who have access to information concerning changes and adjustments to the index and the index shall be calculated by a third party who is

not a broker-dealer or fund advisor; and (II) Any advisory committee, supervisory board, or similar entity that advises a Reporting Authority or a major market data vendor or that makes decisions on the index or portfolio composition, methodology and related matters, must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the applicable index.

- (E) **Disseminated Information.** If a series of Index Fund Shares is listed for trading, or trades pursuant to unlisted trading privileges, on the Exchange in reliance upon rule 19b-4(e) under the Exchange Act, and invests solely in US Component Stocks, the current value of the underlying index must be widely disseminated by one or more major market data vendors or disseminated over the consolidated tape at least every 15 seconds during trading hours on the Exchange. If a series of Index Fund Shares is listed for trading on the Exchange in reliance upon Rule 19b-4(e) under the Exchange Act and invest in both US Component Stocks and Non-US Component Stocks or only in Non-US Component Stocks, the current value of the underlying index must be widely disseminated by one or more major market data vendors or disseminated over the consolidated tape at least every 60 seconds during trading hours on the Exchange. If the index value does not change during some or all of the period when trading is occurring on the Exchange (for example, for indexes of Non-US Component Stocks because of time zone differences or holidays in the countries where such indexes' component stocks trade), then the last official calculated index value must remain available throughout Exchange trading hours.

- (7) *Product Description.* The following paragraphs only apply to series of Index Fund Shares that are the subject of an order by the Securities and Exchange Commission exempting such series from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940. The Exchange will inform members and member organizations regarding application of these provisions to a particular series of Index Fund Shares by means of an Information Circular prior to commencement of trading in such series. The Exchange requires that members and member organizations provide to all purchasers of a series of Index Fund Shares a written description of the terms and characteristics of such securities, in a form prepared by the open-end management investment company issuing such securities, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to a series Index Fund Shares that is provided to customers or the public. Any other written materials provided by a member or member organization to customers or the public making specific reference to a series of Index Fund Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of and is available from your broker or the Exchange. It is recommended that you obtain and review such circular before purchasing. In addition, upon request you may obtain from your broker a prospectus for." A member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase a series of Index Fund Shares

for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to members and member organizations under this Rule. Upon request of a customer, the member or member organization shall also provide a prospectus for the particular series of Index Fund Shares.

- (8) *Limitation of Exchange Liability.* Neither the Exchange, the Reporting Authority, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current index or portfolio value, the current value of the portfolio of securities required to be deposited to the open-end management investment company in connection with issuance of Index Fund Shares; the amount of any dividend equivalent payment or cash distribution to holders of Index Fund Shares; net asset value; or other information relating to the purchase, redemption or trading of Index Fund Shares, resulting from any negligent act or omission by the Exchange, the Reporting Authority or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange, its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reports of transactions in one or more underlying securities.

(m) Securities Linked to the Performance of Indexes and Commodities (Including Currencies)

The Exchange will consider for listing and trading equity index-linked securities ("Equity Index-Linked Securities") and commodity-linked securities ("Commodity-Linked Securities" and, together with Equity Index-Linked Securities, "Linked Securities") that in each case meet the applicable criteria of this Rule. Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance of an underlying equity index or indexes. The payment at maturity with respect to Commodity-Linked Securities is based on one or more physical Commodities or Commodity futures, options or other Commodity derivatives, Commodity-Related Securities, or a basket or index of any of the foregoing (any such basis for payment is referred to below as the "Reference Asset"). The terms "Commodity" and "Commodity-Related Security" are defined in Rule 3230.

Linked Securities may or may not provide for the repayment of the original principal investment amount. The Exchange may submit a rule filing pursuant to Section 19(b)(2) of the Act to permit the listing and trading of Linked Securities that do not otherwise meet the standards set forth below in paragraphs (1) through (12). The Exchange will consider Linked Securities for listing and trading pursuant to Rule 19b-4(e) under the Act, provided:

- (1) Both the issue and the issuer of such security meet the criteria for other securities set forth in Rule 803(f), except that if the security is traded in \$1,000 denominations or is

redeemable at the option of holders thereof on at least a weekly basis, then no minimum number of holders and no minimum public distribution of trading units shall be required.

- (2) The issue has a term of not less than one (1) year and not greater than thirty (30) years.
- (3) The issue must be the non-convertible debt of the Company.
- (4) The payment at maturity may or may not provide for a multiple of the direct or inverse performance of an underlying index, indexes or Reference Asset; however, in no event will a loss (negative payment) at maturity be accelerated by a multiple that exceeds twice the performance of an underlying index, indexes or Reference Asset.
- (5) The Company will be expected to have a minimum tangible net worth in excess of \$250,000,000 and to exceed by at least 20% the earnings requirements set forth in paragraph (a)(1) of this Rule. In the alternative, the Company will be expected: (i) to have a minimum tangible net worth of \$150,000,000 and to exceed by at least 20% the earnings requirement set forth in paragraph (a)(1) of this Rule, and (ii) not to have issued securities where the original issue price of all the Company's other index-linked note offerings (combined with index-linked note offerings of the Company's affiliates) listed on a national securities exchange exceeds 25% of the Company's net worth.
- (6) The Company is in compliance with Rule 10A-3 under the Act.
- (7) Equity Index Criteria—In the case of an Equity Index-Linked Security, each underlying index is required to have at least ten (10) component securities. In addition, the index or indexes to which the security is linked shall either:
  - (A) have been reviewed and approved for the trading of options or other derivatives by the Commission under Section 19(b)(2) of the Act and rules thereunder and the conditions set forth in the Commission's approval order, including comprehensive surveillance sharing agreements for non-U.S. stocks, continue to be satisfied, or
  - (B) the index or indexes meet the following criteria:
    - (I) Each component security has a minimum market value of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market value can be at least \$50 million;
    - (II) Each component security shall have trading volume in each of the last six months of not less than 1,000,000 shares, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the trading volume shall be at least 500,000 shares in each of the last six months;

- (III) Indexes based upon the equal-dollar or modified equal-dollar weighting method will be rebalanced at least semiannually;
  - (IV) In the case of a capitalization-weighted or modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index, each have an average monthly trading volume of at least 2,000,000 shares over the previous six months;
  - (V) No underlying component security will represent more than 25% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% of the weight of the index (60% for an index consisting of fewer than 25 component securities);
  - (VI) 90% of the index's numerical value and at least 80% of the total number of component securities will meet the then current criteria for standardized option trading on a national securities exchange or a national securities association, provided, however, that an index will not be subject to this requirement if (a) no underlying component security represents more than 10% of the dollar weight of the index and (b) the index has a minimum of 20 components;
  - (VII) All component securities shall be either (a) securities (other than securities of a foreign issuer and American Depositary Receipts ("ADRs")) that are (i) issued by a 1934 Act reporting company or by an investment company registered under the Investment Company Act of 1940 that, in each case, has securities listed on a national securities exchange and (ii) an "NMS stock" (as defined in Rule 600 of Regulation NMS under the Act) or (b) securities of a foreign issuer or ADRs, provided that securities of a foreign issuer (including when they underlie ADRs) whose primary trading market outside the United States is not a member of the Intermarket Surveillance Group ("ISG") or a party to a comprehensive surveillance sharing agreement with the Exchange will not in the aggregate represent more than 20% of the dollar weight of the index.
- (8) Reference Asset Criteria—In the case of a Commodity-Linked Security, the Reference Asset shall meet the criteria in either subparagraph (A) or subparagraph (B) below:
- (A) The Reference Asset to which the security is linked shall have been reviewed and approved for the trading of Commodity-Related Securities or options or other derivatives by the Commission under Section 19(b)(2) of the Act and rules thereunder and the conditions set forth in the Commission's approval order, including with respect to comprehensive surveillance sharing agreements, continue to be satisfied.

- (B) The pricing information for each component of a Reference Asset other than a Currency must be derived from a market which is an ISG member or affiliate or with which the Exchange has a comprehensive surveillance sharing agreement. Notwithstanding the previous sentence, pricing information for gold and silver may be derived from the London Bullion Market Association. The pricing information for each component of a Reference Asset that is a Currency must be either: (i) the generally accepted spot price for the currency exchange rate in question; or (ii) derived from a market of which (x) is an ISG member or affiliate or with which the Exchange has a comprehensive surveillance sharing agreement and (y) is the pricing source for a currency component of a Reference Asset that has previously been approved by the Commission. A Reference Asset may include components representing not more than 10% of the dollar weight of such Reference Asset for which the pricing information is derived from markets that do not meet the requirements of this subparagraph (B), provided, however, that no single component subject to this exception exceeds 7% of the dollar weight of the Reference Asset. The term "Currency," as used in this subparagraph, shall mean one or more currencies, or currency options, futures, or other currency derivatives, Commodity-Related Securities if their underlying Commodities are currencies or currency derivatives, or a basket or index of any of the foregoing.
- (9) Maintenance and Dissemination—(A) If the index is maintained by a broker-dealer, the broker-dealer shall erect a "firewall" around the personnel who have access to information concerning changes and adjustments to the index and the index shall be calculated by a third party who is not a broker-dealer. (B) Unless the Commission order applicable under clause 7(A) or 8(A) hereof provides otherwise, the current value of the index or the Reference Asset (as applicable) will be widely disseminated at least every 15 seconds during the Exchange's regular market session, except as provided in the next clause (C). (C) The values of the following indexes need not be calculated and widely disseminated at least every 15 seconds if, after the close of trading, the indicative value of the Equity Index-Linked Security based on one or more of such indexes is calculated and disseminated to provide an updated value: CBOE S&P 500 BuyWrite Index(sm), CBOE DJIA Buy Write Index(sm), CBOE Nasdaq-100 BuyWrite Index(sm). (D) If the value of a Linked Security is based on more than one index, then the dissemination requirement of this paragraph (9) applies to the composite value of such indexes. (E) In the case of a Commodity-Linked Security that is periodically redeemable, the indicative value of the subject Commodity-Linked Security must be calculated and widely disseminated by one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session.
- (10) Trading Halts. In the case of Commodity-Linked Securities, if the indicative value (if required to be disseminated) or the Reference Asset value is not being disseminated as required, or, in the case of Equity Index-Linked Securities, if the value of the index is not being disseminated as required, the Exchange may halt trading during the day on which such interruption occurs. The Exchange will halt trading no later than the

beginning of trading following the trading day when the interruption commenced if such interruption persists at this time.

- (11) Surveillance Procedures. FINRA will implement on behalf of the Exchange written surveillance procedures for Linked Securities. The Exchange will enter into adequate comprehensive surveillance sharing agreements for non-U.S. securities, as applicable.
- (12) Linked Securities will be treated as equity instruments. Furthermore, for the purpose of fee determination, Linked Securities shall be deemed and treated as Other Securities.

(n) Managed Fund Shares

- (1) The Exchange will consider listing Managed Fund Shares that meet the criteria of Rule 803(n).
- (2) Applicability. Rule 803(n) is applicable only to Managed Fund Shares. Except to the extent inconsistent with Rule 803(n), or unless the context otherwise requires, the Rules and procedures of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Managed Fund Shares are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange.
  - (A) The Exchange will file separate proposals under Section 19(b) of the Act before the listing of Managed Fund Shares
  - (B) Transactions in Managed Fund Shares will occur throughout the Exchange's trading hours.
  - (C) Minimum Price Variance. The minimum price variation for quoting and entry of orders in Managed Fund Shares is \$0.01.
  - (D) Surveillance Procedures. The Exchange will implement written surveillance procedures for Managed Fund Shares.
  - (E) Creation and Redemption. For Managed Fund Shares based on an international or global portfolio, the statutory prospectus or the application for exemption from provisions of the Investment Company Act of 1940 for the series of Managed Fund Shares must state that such series must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.
- (3) Definitions. The following terms as used in the Rules shall, unless the context otherwise requires, have the meanings herein specified:



- (A) Managed Fund Share. The term "Managed Fund Share" means a security that (a) represents an interest in a registered investment company ("Investment Company") organized as an open-end management investment company or similar entity, that invests in a portfolio of securities selected by the Investment Company's investment adviser consistent with the Investment Company's investment objectives and policies; (b) is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value; and (c) when aggregated in the same specified minimum number, may be redeemed at a holder's request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined net asset value.
- (B) Disclosed Portfolio. The term "Disclosed Portfolio" means the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company's calculation of net asset value at the end of the business day.
- (C) Intraday Indicative Value. The term "Intraday Indicative Value" is the estimated indicative value of a Managed Fund Share based on current information regarding the value of the securities and other assets in the Disclosed Portfolio.
- (D) Reporting Authority. The term "Reporting Authority" in respect of a particular series of Managed Fund Shares means the Exchange, an institution, or a reporting service designated by the Exchange or by the exchange that lists a particular series of Managed Fund Shares (if the Exchange is trading such series pursuant to unlisted trading privileges) as the official source for calculating and reporting information relating to such series, including, but not limited to, the Intraday Indicative Value; the Disclosed Portfolio; the amount of any cash distribution to holders of Managed Fund Shares, net asset value, or other information relating to the issuance, redemption or trading of Managed Fund Shares. A series of Managed Fund Shares may have more than one Reporting Authority, each having different functions.
- (4) Initial and Continued Listing — Managed Fund Shares will be listed and traded on the Exchange subject to application of the following criteria:
- (A) Initial Listing — Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following initial listing criteria:
- (I) For each series, the Exchange will establish a minimum number of Managed Fund Shares required to be outstanding at the time of commencement of trading on the Exchange.
- (II) The Exchange will obtain a representation from the issuer of each series of Managed Fund Shares that the net asset value per share for the series will be calculated daily and that the net asset value and the Disclosed Portfolio will be made available to all market participants at the same time.

- (B) Continued Listing — Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following continued listing criteria:
- (I) Intraday Indicative Value. The Intraday Indicative Value for Managed Fund Shares will be widely disseminated by one or more major market data vendors at least every 15 seconds during the time when the Managed Fund Shares trade on the Exchange.
  - (II) Disclosed Portfolio.
    - (a) The Disclosed Portfolio will be disseminated at least once daily and will be made available to all market participants at the same time.
    - (b) The Reporting Authority that provides the Disclosed Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of the portfolio.
- (C) Suspension of trading or removal. The Exchange will consider the suspension of trading in or removal from listing of a series of Managed Fund Shares under any of the following circumstances:
- (I) if, following the initial twelve-month period after commencement of trading on the Exchange of a series of Managed Fund Shares, there are fewer than 50 beneficial holders of the series of Managed Fund Shares for 30 or more consecutive trading days;
  - (II) if the value of the Intraday Indicative Value is no longer calculated or available or the Disclosed Portfolio is not made available to all market participants at the same time;
  - (III) if the Investment Company issuing the Managed Fund Shares has failed to file any filings required by the Commission or if the Exchange is aware that the Investment Company is not in compliance with the conditions of any exemptive order or no-action relief granted by the Commission to the Investment Company with respect to the series of Managed Fund Shares; or
  - (IV) if such other event shall occur or condition exists which, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.
- (D) Trading Halt. If the Intraday Indicative Value of a series of Managed Fund Shares is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the Intraday Indicative Value occurs. If the interruption to the dissemination of the Intraday Indicative Value persists past the trading day in which it occurred, the Exchange will halt trading no

later than the beginning of the trading day following the interruption. In addition, if the Exchange becomes aware that the net asset value or the Disclosed Portfolio with respect to a series of Managed Fund Shares is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the net asset value or the Disclosed Portfolio is available to all market participants.

- (E) Termination. Upon termination of an Investment Company, the Exchange requires that Managed Fund Shares issued in connection with such entity be removed from listing on the Exchange.
- (F) Voting. Voting rights shall be as set forth in the applicable Investment Company prospectus.
- (5) Limitation of Liability. Neither the Exchange, the Reporting Authority, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current portfolio value; the current value of the portfolio of securities required to be deposited to the open-end management investment company in connection with issuance of Managed Fund Shares; the amount of any dividend equivalent payment or cash distribution to holders of Managed Fund Shares; net asset value; or other information relating to the purchase, redemption, or trading of Managed Fund Shares, resulting from any negligent act or omission by the Exchange, the Reporting Authority or any agent of the Exchange, or any act, condition, or cause beyond the reasonable control of the Exchange, its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission, or delay in the reports of transactions in one or more underlying securities.
- (6) Disclosures. The provisions of this subparagraph apply only to series of Managed Fund Shares that are the subject of an order by the Securities and Exchange Commission exempting such series from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 and are not otherwise subject to prospectus delivery requirements under the Securities Act of 1933. The Exchange will inform its members and member organizations regarding application of these provisions of this subparagraph to a particular series of Managed Fund Shares by means of an information circular prior to commencement of trading in such series.

The Exchange requires that members and member organizations provide to all purchasers of a series of Managed Fund Shares a written description of the terms and characteristics of those securities, in a form prepared by the open-end management investment company issuing such securities, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to a series of Managed Fund Shares that is provided to customers or the public. Any other written materials provided by a member or member organization

to customers or the public making specific reference to a series of Managed Fund Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of (the series of Managed Fund Shares) has been prepared by the (open-end management investment company name) and is available from your broker. It is recommended that you obtain and review such circular before purchasing (the series of Managed Fund Shares)."

A member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase a series of Managed Fund Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to members and member organizations under this Rule.

Upon request of a customer, a member organization shall also provide a prospectus for the particular series of Managed Fund Shares.

(7) If the investment adviser to the Investment Company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect a "fire wall" between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such Investment Company portfolio. Personnel who make decisions on the Investment Company's portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable Investment Company portfolio.

(o) Unlisted Trading Privileges

(1) Applicability. The Exchange may determine to extend unlisted trading privileges ("UTP") to a NMS Stock that is listed on another national securities exchange. Any such security will be subject to all Exchange trading Rules applicable to NMS Stocks, unless otherwise noted, including the Exchange's Rule 3000 Series. The Exchange lists only standardized options, as defined in Rule 9b-1 under the Exchange Act, issued by a clearing agency that is registered pursuant to Section 17A of the Exchange Act, pursuant to the Rule 1000, 1000A and 1000C Series, and the provisions of this Rule 800 Series are not effective to permit the listing of securities. For purposes of this Rule, the term NMS Stock shall have the meaning given such term by Rule 600 under Regulation NMS, and may include, but is not limited to, common stock, preferred stock and similar issues, shares or certificates of beneficial interest of trusts, notes, limited partnership interests, warrants, certificates of deposit for common stock, convertible debt securities, American Depositary Receipts (ADRs), contingent value rights ("CVRs"), Trust Shares, Trust Issued Receipts, Index Fund Shares, Equity Index-Linked Securities, Commodity-Linked Securities, Equity-Linked Notes, and Managed Fund Shares.

- (2) Prior to the commencement of trading of CVRs on the Exchange, the Exchange will distribute a circular to its member organizations providing guidance regarding member organization compliance responsibilities (including suitability recommendations and account approval) when handling transactions in CVRs.
- (3) Any "new derivative securities product" ("NDSP") traded on the Exchange pursuant to UTP shall be subject to the additional following Rules:
  - (A) Information Circular. The Exchange shall distribute an information circular prior to the commencement of trading in such NDSP that generally includes the same information as the information circular provided by the listing exchange, including: (1) the special risks of trading the NDSP; (2) the Exchange's Rules that will apply to the NDSP, including the suitability rule; (3) information about the dissemination of value of the underlying assets or indexes; and (4) the risk of trading during the period from 9:00 a.m. to 9:30 a.m. and from 4:00 p.m. to 5:00 p.m. due to the lack of calculation or dissemination of the underlying index value, the Intraday Indicative Value, the Indicative Optimized Portfolio Value or other comparable estimate of the value of a share of the NDSP.
  - (B) Prospectus Delivery/Product Description. Members and member organizations are subject to the prospectus delivery requirements under the Securities Act of 1933, unless the NDSP is the subject of an order by the Securities and Exchange Commission exempting the product from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 and the product is not otherwise subject to prospectus delivery requirements under the Securities Act of 1933. The Exchange shall inform its members and member organizations regarding the application of the provisions of this subparagraph to such NDSPs by means of an information circular.

The Exchange requires that members and member organizations provide to all purchasers of such NDSPs a written description of the terms and characteristics of those securities, in a form approved by the Exchange or prepared by the open-ended management company issuing such securities, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, the members and member organizations shall include a written description with any sales material relating to such NDSPs that is provided to customers or the public. Any other written materials provided by a member or member organization to customers or the public making specific reference to such NDSPs as an investment vehicle must include a statement substantially in the following form: "A circular describing the terms and characteristics of [such NDSPs] has been prepared by the [open-ended management investment company name] and is available from your broker. It is recommended that you obtain and review such circular before purchasing [such NDSPs]."

A member or member organization carrying an omnibus account for a non-member is required to inform such non-member that execution of an order to purchase such

NDSPs for such omnibus account will be deemed to constitute an agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to members and member organizations under this Rule.

Upon request of a customer, a member or member organization shall also provide a prospectus for such NDSPs.

(C) Comprehensive Surveillance Sharing Agreements. The Exchange shall enter into a comprehensive surveillance sharing agreement ("CSSA") with markets trading components of the index or portfolio on which the NDSP is based to the same extent as the listing Exchange's Rules require the listing exchange to enter into a CSSA with such markets.

••• *Commentary:* -----

.01 The Nasdaq Stock Market, Inc. ("Nasdaq") has licensed the use of the Nasdaq-100 Index for certain purposes in connection with trading in a particular series of Trust Shares on the Exchange. Nasdaq and its affiliates do not guarantee the accuracy and/or completeness of the Nasdaq-100 Index or any data included therein. Nasdaq, the Exchange and their affiliates make no warranty, express or implied, as to results to be obtained by any person or entity from the use of the Nasdaq-100 Index or any data included therein in connection with the rights licensed or for any other use. Nasdaq, the Exchange and their affiliates make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose with respect to the Nasdaq-100 Index or any data included therein. Without limiting any of the foregoing, in no event shall Nasdaq, the Exchange and their affiliates have any liability for any lost profits or special, punitive, incidental, indirect, or consequential damages, even if notified of the possibility of such damages. In addition, Nasdaq, the Exchange and their affiliates shall have no liability for any damages, claims, losses or expenses caused by any errors or delays in calculating or disseminating the Nasdaq-100 Index.

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**Rule 804. Alternative Criteria for Listing—Tier I**

The Exchange recognizes that certain financially sound companies may be unable to meet its full listing criteria due to the nature of their business: Such companies may still be eligible for listing provided the following criteria are met:

- (1) Net Tangible Assets—Total Assets (including the value of patents, copyrights and trademarks, but excluding the value of goodwill) less total liabilities must be \$12 million;

- (2) At least 1,000,000 shares publicly held with at least 400 public shareholders.
- (3) Stock price of \$3 per share on each of the five business days prior to the application date;
- (4) Aggregate Market Value \$15,000,000
- (5) Three years of operating history;
- (6) Voting Rights—See Rule 812;
- (7) The company must have sufficient financial resources to continue operating over an extended period of time and its securities are regarded by the Exchange as suitable for listing and auction market trading.

**Rule 805. Listing Criteria—Tier II**

The Exchange has established certain numerical criteria which companies that are too small to meet the Exchange's Tier I listing standards are required to meet in order to be eligible for listing. In addition, companies must adhere to the policies and procedures and corporate governance standards provided in Rules 812 through 853.

**(a) In the case of Common Stock:**

1. At least 750,000 shares are issued and outstanding having a minimum market value of \$2,250,000, exclusive of shares held by those required to report their stock holdings under Section 16(a) of the Securities Exchange Act of 1934 ("Exchange Act") (hereinafter Section 16(a) Reporting Persons);
2. At least 500 public holders;
3. Net tangible assets, which is defined by the Exchange as total assets (which include the value of patents, copyrights and trademarks but exclude the value of goodwill) less total liabilities of at least \$1,500,000;
4. Net income after federal income taxes and before extraordinary items of \$100,000 a year for three of the last four years preceding the listing review or \$2,000,000 in net tangible assets; and
5. A minimum market price of \$3 per share on each of the five business days prior to the application date

**(b) In the case of Warrants:**

1. At least 500,000 warrants outstanding, exclusive of warrants held by Section 16(a) Reporting Persons; and

2. The company meets the net tangible assets and net income criteria applicable to common stock.

(c) In the case of Preferred Stock:

1. At least 500,000 shares outstanding, exclusive of shares held by Section 16 (a) Reporting Persons;
2. At least 250 public holders; and
3. The company meets the net tangible assets and net income criteria applicable to common stock and appears to be able to service the dividend requirements of the issue.

(d) In the case of Bonds, Debentures or Notes:

1. The issue has a principal amount of at least \$2,000,000;
2. The issue has an aggregate market value of at least \$2,000,000;
3. At least 250 public holders; and
4. The company meets the net tangible assets and net income criteria applicable to common stock and appears to be able to satisfy interest and principal when due.

(e) In the case of Units:

1. The Exchange will review unit offerings with respect to its components.

(f) In the case of shares of a foreign issuer either registered directly as American Depositary Receipts (ADRs) or as American Depositary Shares (ADSs):

1. The shares must be registered or exempt from registration under the Exchange Act;
2. At least 750,000 shares or ADRs are issued and outstanding in the United States having a minimum market value of at least \$1,500,000 United States dollars, exclusive of shares held by Section 16(a) Reporting Persons;
3. At least 500 public holders in the United States;
4. Total net tangible assets of at least \$1,500,000 in United States dollars; and
5. Net income of \$100,000 a year for three of the last four years preceding the listing review or \$2,000,000 in net tangible assets (in United States dollars);



6. Share certificates shall be printed in English and in registered form and share certificates shall be interchangeable and capable of being delivered or transferred in the United States as well as in the country of origin;
7. The ADRs shall be issued by a United States bank or trust company, representing the deposit of an equivalent amount of underlying foreign shares;
8. ADRs dealt in on the Exchange must conform to customary standards as to form and printing and include a statement on the face of the certificate that title thereto is transferable with the same effect as in the case of an investment security under Article 8 of the Uniform Commercial Code; and
9. A foreign issuer is required to furnish to American shareholders an English language version of the materials provided to its shareholders; and
10. The Exchange will consider the law and commercial and business practices of the applicant's domicile in evaluating (a) the election and composition of its Board of Directors, (b) shareholder approval, voting rights and quorum requirements for meetings, and (c) the issuance of quarterly earnings statements. A company seeking relief under these provisions should provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law.

#### **Rule 806. Initial Public Offerings**

(a) A new issue of securities shall be eligible for listing on the day that its registration statement is effective with the Securities and Exchange Commission, or where registration with Securities and Exchange Commission is not required, upon effectiveness of its registration statement or equivalent document filed with the appropriate regulatory authority, provided that the issuer has met the initial listing criteria as follows: prior to the offering, the issuer has met the initial listing criteria of Rules 803, 804 or 805 except that as a result of the offering, the criteria for shares outstanding, price per share and holder of record contained in Rules 803, 804 or 805 as applicable, were met for a majority of the trading days in the first month after the offering is complete.

(b) Prior to the offering the issuer must provide the Exchange with a letter from the principal investment bank which represents that, in their opinion, the company will attain the requisite level of shareholders, market value and price in order to be eligible for listing. Within one month after the offering has been completed and closed, the Exchange requires documentation from the company's transfer agent that the requisite criteria have been met for a majority of trading days during that month. If criteria has not been met, the issue will be immediately delisted. A new issue of securities listed pursuant to Rule 803(f), (h), (k), (m) and (n) shall be exempt from the provisions of Rule 806(b).

#### **Rule 807. Registration Under the Exchange Act**

A security approved for listing by the Exchange must be registered under Section 12(b) of the Exchange Act before it may be admitted to trading on the Exchange. Exchange Act registration is required even though the issuer may have previously registered all or part of the securities

under the Securities Act of 1933 ("Securities Act"). However, a security which has already been registered under Section 12(g) of the Exchange Act, or has recently been the subject of a public offering registered under the Securities Act, may normally be registered under Section 12(b) of the Exchange Act for Exchange trading on SEC Form 8-A.

In addition, securities of an issuer which has another class or series of securities registered on another national securities exchange may also use SEC Form 8-A. If an applicant does not have a class of securities registered under Exchange Act Section 12(g) or another class of securities registered on a national securities exchange, SEC Form 10 may be required.

Applicants should prepare and file the SEC registration statement and exhibits concurrently with the Exchange listing application and exhibits. However, registration under Section 12(b) of the Exchange Act cannot become effective until after the issue has been approved for listing by the Exchange. Upon such approval, the Exchange is required to certify to the SEC that it has received its copy of the registration statement and has approved the particular securities for listing and registration. Registration of a class of securities on Form 8-A becomes effective automatically upon the later of the filing of the Form 8-A with the SEC, the SEC's receipt of certification from the Exchange, or (if the class of securities is concurrently being registered under the Securities Act) the effectiveness of the related Securities Act registration statement. Registration other than on Form 8-A becomes effective automatically 30 days after receipt by the SEC of the Exchange's certification but may become effective within a shorter period, by order of the SEC, on request for acceleration of the effective date made by the company to the SEC.

One manually signed copy of the Exchange Act registration statement, including exhibits, must be filed with the listing application.

#### **Rule 808. Submission of Original Listing Application**

(a) An applicant company seeking listing privileges should submit to the Exchange a preliminary draft listing application (signed by an Executive Officer) along with the following supporting documentation:

1. Latest Form 10-K Annual report, Form 10-Q Quarterly Report(s) for the last three quarters, Form 8-K reports filed pursuant to the Exchange Act, and latest proxy statement for the annual meeting of stockholders; or
2. A prospectus declared effective by the SEC which contains the latest audited financial statements of the applicant company, Form 10-Q Quarterly Reports(s) and Form 8-K Current Report(s)(or comparable periodic reports filed with the appropriate regulatory agency of the applicant company pursuant to the Securities Exchange Act of 1934), for the last year and latest available proxy statement for a meeting of stockholders. In the event a Form 10-Q Quarterly Report (or comparable periodic report) for a quarter ended more than 45 days before the date of the listing application is not required to be filed with the SEC (or other appropriate regulatory agency), financial information comparable to that which would have been included in the Form 10-Q Quarterly Report shall be filed with the Exchange as part of the listing application; and

3. Latest annual report distributed to stockholders; and
4. Any other information deemed necessary by the Exchange in order to render a decision concerning listing eligibility.
5. Specimen Certificates. One specimen copy of each denomination of certificate of class to be listed. If transfer agent(s) and registrar(s) are located in more than one city, furnish one specimen of each denomination of certificates used in each city. Specimens should be accompanied by certificate and agreement of the banknote company. Foreign issuers must provide specimen certificates in English.
6. Opinion of Counsel. One copy of opinion of counsel of satisfactory standing, addressed to the Exchange, as to the following: (a) the legality of organization and valid existence of the applicant; (b) its qualification in jurisdictions other than that of incorporation (if applicable); (c) the validity of authorization and issuance (or proposed issuance) of the securities applied for; and (d) whether the securities are (or will be) fully paid and non-assessable, and whether personal liability attaches to ownership. If such counsel or any partner of such counsel (or, if a firm, and member thereof) is an officer, director or shareholder of the applicant, this fact must be disclosed in the opinion and in the listing application. In addition, the opinion should enumerate the circumstances of original issuance of the securities from the date of incorporation to the date of application and, if an exemption from registration under the Securities Act has been claimed for any such issuance, the basis of exemption should be set forth. With respect to any unissued securities applied for which, upon issuance, will be issued without registration under the Securities Act, in reliance upon an exemption therefrom, the opinion should state that such certificates (identify blocks and purposes for which issuable) will bear a legend relating to the sale or transfer restriction. Such legend (which must be quoted in the opinion) should read substantially as follows: "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or transferred in the absence of such registration or an exemption therefrom under said Act."
7. Listing Resolution. Certified copy of resolution of board of directors, authorizing the filing of the listing application and designating the officer or officers authorized to sign documents or agreements relative thereto and (if requested) to appear before officials of the Exchange. A suggested wording is as follows:

"RESOLVED, that application be made to Nasdaq PHLX LLC ("Exchange") for the listing of (amount and designation of security) of this Corporation and that name(s) of officer(s) is (are) hereby authorized and directed by the Corporation to sign said application and any listing agreements or documents required by said Exchange in connection therewith and to make such changes in any of same as may be necessary to conform with the requirements for listing, and to appear (if requested) before officials of said Exchange."
8. Contract with Transfer Agent. One copy of the contract with transfer agent relative to the issuance of additional shares.

9. Contract with Registrar. One copy of the contract of each registrar relative to the registration of additional shares.
10. Option, Bonus, Profit-Participation, Pension and Retirement Plans. One certified copy of any such employee benefit plan.
11. Listing Fee—a check drawn to the Nasdaq PHLX LLC ("Exchange") in the amount of \$7500. Should the company not be eligible for listing the Exchange will retain \$500.

(b) Bond Listing Application

An original listing application for bond or debenture issues should essentially follow the same format in section (a) above except that the following descriptions should accompany the application in narrative form:

1. Description of Bonds. If a prospectus is attached to the listing application, the relevant information may be incorporated by reference to such document. If a prospectus is not attached, applicant will give the following information in narrative form:
  - (1) full title of issue; (2) title of instrument under which created; (3) name of trustee; (4) dates of authorization by directors, shareholders and public authorities; (5) amounts authorized, issued to date, retired, and outstanding; (6) date of issue maturity, and interest rate; (7) places and dates for payment of principal and interest and standard of money in which payable; (8) tax exemptions; (9) whether issuable in coupon or registered form; (10) denominations issuable; (11) whether exchangeable as between registered and coupon form, and interchangeable as to denominations, together with places and times at which exchanges may be made; and (12) where registerable and transferable.
2. Indenture Provision. Summarize the indenture provisions of the issue applied for with respect to the following:
  - (1) security, describing the lien created by the indenture or other instrument, properties covered (in general terms), and other assets pledged thereunder (describe also and underlying or prior liens); (2) additional issues, stating conditions under which additional amounts of indebtedness may be issued; (3) sinking fund; (4) redemption and call, including date on which redeemable, prices, method of selection in event of partial redemption, duration and place of published notice, disposition of bonds redeemed; (5) default, including events constituting default, remedies of bondholders' percentage of bonds necessary to direct or control trustee's action in regard to default (6) release of pledged property from lien, stating conditions under which pledged property may be released from lien of the indenture, or other property substituted for pledged property; (7) convertibility; (8) modification, stating extent to which indenture may be modified in any particular circumstance and conditions under which it may be so modified; (9) treatment of deposited funds, stating how funds deposited pursuant to the term of the indenture are required to be held, whether deposit of funds operates to discharge the

properties pledged from the lien of the indenture and whether deposit of funds for payment of principal, interest of redemption operates to discharge the obligation of the issuer with respect thereto; (10) summarize the more important covenants of the indenture; and (11) names and addresses of trustee, fiscal and paying agent(s), agent(s) for registry, exchange and interchange of bonds.

3. Distributions. Schedule of distribution. If, as in the case of a non-registered bond, details concerning distribution cannot be determined, the Exchange will accept the best available estimate of the number of holders.
4. Opinion of Counsel. One copy of opinion of counsel of satisfactory standing addressed to the Exchange, as to the following: (a) the legality of organization and valid existence of the applicant; (b) the validity of authorization and issuance of the bonds; and (c) the legal, valid and binding nature of the obligations enforceable against the applicant in accordance with the terms of the instrument creating such bonds with remedies exceptions, if appropriate. If the bonds are convertible into equity securities of the applicant, an opinion should further set forth the basis for exemption from registration under the Securities Act that has been, or will be, claimed for the issuance of the bonds of the securities into which they are convertible; and, if they are to be issued under an exemption, the legend that such certificates will bear must be quoted in the opinion. If counsel, or any partner of such counsel (or, if a firm, any member thereof) is an officer, director or shareholder of the applicant, this fact must be disclosed in the opinion and in the listing application.
5. Indenture. One copy of the mortgage, indenture, or equivalent instrument certified by the trustee.
6. Trustee's Certificate. A certificate from the trustee showing: (a) acceptance of the trust; (b) that the securities have been issued in accordance with the terms of the indenture; (c) what disposition has been made of securities redeemed or refunded; (d) that pledged collateral has been deposited; and (e) what disposition has been made of prior obligations. (see suggested Form.)

#### **Rule 809. Issuer Request for Removal and Delisting of Securities**

(a) An issuer proposing to withdraw a security from listing on the Exchange shall submit a certified copy of a resolution adopted by the Board of Directors of the issuer authorizing withdrawal from listing and registration and a statement setting forth in detail the reasons for the proposed withdrawal and the facts in support thereof.

The issuer may be required to submit the proposed withdrawal to the security holders for their vote at a meeting for which proxies are solicited provided the stock is not also listed on another Exchange having similar requirements.

(b) An issuer proposing to withdraw a security from listing on the Exchange shall do so by electronically submitting to the Securities and Exchange Commission ("Commission") Form 25

via the EDGAR system in compliance with all of the requirements of Rule 12d2-2(c) under the Exchange Act, and shall simultaneously provide a copy of such Form 25 to the Exchange.

(c) Not less than ten days before the issuer submits Form 25 pursuant to paragraph (b) herein an issuer seeking to voluntarily apply to withdraw a security from listing on the Exchange where the issuer has received notice from the Exchange, pursuant to Rule 811 or otherwise, that the issuer is below the Exchange's continued listing policies and standards, or that the issuer is aware that it is below such continued listing policies and standards notwithstanding that it has not received such notice from the Exchange, must:

- (i) provide written notice to the Exchange of its decision to withdraw from listing indicating all material facts relating to the reasons for withdraw in compliance with Rule 12d2-2(c) under the Exchange Act, and
- (ii) contemporaneously with providing such notice to the Exchange disclose that it is no longer eligible for continued listing (including the specific continued listing policies and standards that the issue is below) in (A) its statement of all material facts relating to the reasons for withdrawal from listing provided to the Exchange along with written notice of its determination to withdraw from listing required by Rule 12d2-2(c)(2)(ii) under the Exchange Act and (B) its release and Web site notice required by Rule 12d2-2(c)(2)(iii) under the Exchange Act.

#### **Rule 810. Suspension and Delisting Policies Based on Exchange Findings**

The Exchange may suspend dealings in any security admitted to the list and/or institute proceedings to remove a security from the list. The issues will be reviewed on a quarterly basis and as necessary due to extraordinary corporate events. All issues listed prior to the adoption of this Rule will be reviewed by the Exchange in order to determine whether the company fully complies with the new maintenance criteria. All such issues will be given six months to demonstrate full compliance with the new maintenance standards. If the issuer cannot demonstrate full compliance after that time it will become subject to delisting proceedings pursuant to Rule 811.

- (a) The Exchange has adopted certain criteria which an issuer which has been listed pursuant to Rule 803 or 804 must meet in order to remain listed. The following minimum criteria does not limit or restrict the Exchange's right to delist a security. Upon reviewing the relevant circumstances in each case, the Exchange may suspend dealings in, or remove a security from listing or unlisted trading when, in its opinion, the security is unsuitable for continued trading on the Exchange, regardless of whether all of the following criteria is met:
  - (1) 200,000 publicly held shares with an aggregate market value of \$1,000,000;
  - (2) 400 public shareholders or 300 round lot shareholders;
  - (3) Net tangible assets of at least \$2 million if the issuer has sustained losses from continuing operations and/or net losses in two of its three most recent fiscal years; or

\$4 million if the issuer has losses from continuing operations and/or net losses in three of its four most recent fiscal years;

(4) For CVRs, aggregate market value of at least \$1 million and the related equity security to which a cash payment is tied must remain listed.

(5) For Bonds, Debentures and Notes:

(i) aggregate market value or the principal amount of bonds publicly held of \$400,000; and

(ii) the issuer must be able to meet its obligations in the listed debt securities

(iii) a debt security convertible into a listed equity security will be reviewed when the underlying equity security is delisted and will be delisted when the underlying equity security is no longer subject to real-time trade reporting in the United States. In addition, if common stock is delisted for violation of any of the corporate governance criteria in Exchange Rules 812 through 899, the Exchange will also delist any listed debt securities convertible into that common stock.

(b) The Exchange has adopted certain criteria which an issuer which has been listed pursuant to Rule 805 must meet in order to remain listed. The following minimum criteria does not limit or restrict the Exchange's right to delist a security. Upon reviewing the relevant circumstances in each case, the Exchange may suspend dealings in, or remove a security from listing or unlisted trading when, in its opinion, the security is unsuitable for continued trading on the Exchange, regardless of whether all of the following criteria is met:

(1) In the Case of Common Stock:

i. Less than 375,000 shares are issued and outstanding exclusive of shares held by Section 16(a) Reporting Persons;

ii. Should the aggregate market value of publicly held shares (aggregate market value) remain below \$250,000 for a majority of trading days in the most recent three (3) calendar month period, below \$500,000 in the most recent six (6) calendar month period, below \$750,000 in the most recent nine (9) calendar month period or below \$1 million in the most recent twelve (12) calendar month period, it would be subject to delisting procedures. In each instance the aggregate market value shall be calculated by using the last sale of the trading day. Should no transactions be effected in the issue, the prevailing closing bid shall be the factor used in the aggregate market value calculation. In the event that there is not a bid price readily available, the Exchange will use its best efforts in determining an accurate share price on which to base its aggregate market value calculations.

iii. Fewer than 250 public holders; or

- iv. Net tangible assets, as defined in Rule 805(a)(3) less than \$1,500,000; or
  - v. A price per share of less than \$1.00 for a majority of days in a 60 trading day period.
- (2) In the case of Warrants:
- i. Less than 250,000 warrants outstanding, exclusive of warrants held by Section 16(a) Reporting Persons; or
  - ii. The company does not satisfy the net tangible assets criteria for common stock.
- (3) In the case of Preferred Stock:
- i. Less than 250,000 shares outstanding, exclusive of shares held by Section 16(a) Reporting Persons;
  - ii. Fewer than 100 public holders; or
  - iii. The issuer does not satisfy the net tangible assets criteria for common stock.
- (4) In the case of Bonds:
- a. Publicly held principal amount outstanding less than \$1,000,000 having an aggregate market value of less than \$500,000;
  - b. Fewer than 125 public holders; or
  - c. The issuer does not satisfy the net tangible assets criteria for common stock.
  - d. In the case of municipal securities, such security is not rated as investment grade by at least one nationally recognized rating service, does not have at least a market value or principal amount outstanding of one half million dollars (\$500,000) or is not held by at least fifty (50) public beneficial holders of record.
- (5) In the case of Units:
- a. The components of the unit no longer satisfy the respective criteria of Rule 810.
- (6) In the case of shares of a foreign issuer either registered directly or as ADRs or ADSs:
- a. Less than 375,000 shares or ADRs or ADSs are issued and outstanding in the United States, exclusive of shares held by Section 16(a) Reporting Persons;



- b. Aggregate market value of publicly held shares issued and outstanding in the United States is less than 750,000 United States dollars for a one-year period;
  - c. Fewer than 250 public holders in the United States; or
  - d. Net tangible assets are less than \$1,500,000.
- (c) In considering whether a security should continue to be traded, the Exchange considers, among other things, the degree of investor interest in the security, the reputation of the issuer and whether its securities continue to be suitable for auction market trading. The Exchange may also review the continued listing of an issuer when there has been a substantial sale of operating assets or the issuer has taken steps toward liquidation.

The Exchange may at any time in its discretion suspend dealings in any security from listed or unlisted trading privileges. In addition to the quantitative criteria provided in this Rule, the Exchange may consider suspending trading in or removing from listing or unlisted trading in any security when in the opinion of the Exchange any one of the following conditions are found to exist:

- (1) Unsatisfactory Financial Condition—the financial condition and/or operating results of the issuer appear to be unsatisfactory, i.e., the issuer has sustained losses which are so substantial in relation to its overall operations or its existing financial resources, or its financial condition has become so impaired that it appears questionable, in the opinion of the Exchange, as to whether the company will be able to continue operations and/or meet its obligations as they mature; or
- (2) Disposal of Assets—the issuer has sold or otherwise disposed of its principal operating assets, or has ceased to be an operating company, absent extraordinary circumstances;
  - (i) If the company has sold or otherwise disposed of its principal operating assets or has ceased to be an operating company or has discontinued a substantial portion of its operations or business for any reason whatsoever, including without limitation, such events as sale, lease, spin-off, distribution, foreclosure, discontinuance, abandonment, destruction, condemnation, seizure or expropriation. Where the company has substantially discontinued the business that it conducted at the time it was listed or admitted to trading, and has become engaged in ventures or promotions which have not developed to a commercial stage or the success of which is questionable, it shall not be considered an operating company for the purposes of continued trading and listing on the Exchange.
  - (ii) If liquidation of the company has been authorized. However, where such liquidation has been authorized by stockholders and the company is committed to proceed, the Exchange will normally continue trading until substantial liquidation distributions have been made.

- (iii) If advice has been received, deemed by the Exchange to be authoritative, that the security is without value.
- (3) Listing Agreement—the issuer has failed to comply with its listing agreement with the Exchange.
- (4) Exchange Rules—the issuer of a company fails (or the transfer agent or registrar of which fails) to comply with the Exchange Rules in any material respect including the corporate governance rules in Rules 812 to 851.
- (5) Registration No longer Effective—if the registration (or exemption from registration thereof) pursuant to the Exchange Act is no longer effective.
- (6) Payment, Redemption or Retirement of Entire Class, Issue or Series—if the entire outstanding amount of a class, issue or series is retired through payment at maturity or through redemption, reclassification or otherwise. In such event the Exchange may, at a time which is appropriate under all circumstances of the particular case, suspend dealings in the security and, in the case of a listed security, give notice to the SEC on Form 25, of the Exchange's intention to remove such security from listing and registration as required by Rule 12d-2(a) under the Exchange Act.
- (7) Operations Contrary to Public Interest—if the company or its management shall engage in operations which, in the opinion of the Exchange, are contrary to the public interest.
- (8) Failure to Pay Listing Fees—if the company shall fail or refuse to pay, when due, any applicable listing fees established by the Exchange.
- (9) Low selling Price Issues—in the case of a common stock selling for a substantial period of time at a price less than \$3 per share, if the issuer shall fail to effect a reverse split of such shares within a reasonable time after being notified that the Exchange deems such action to be appropriate under all circumstances.

In its review of the question of whether it deems a reverse split of a given issue to be appropriate, the Exchange will consider all pertinent factors including, market conditions in general, the number of shares outstanding, plans which may have been formulated by management, applicable regulations of the state or country of incorporation or of any governmental agency having jurisdiction over the company, the relationship to other Exchange policies regarding continued listing, and, in respect of securities of foreign issuers, the general practice in the country of origin of trading in low-selling price issues.

- (10) Any other event shall occur or any other condition shall exist which makes further dealings on the Exchange inadvisable.

••• *Supplementary Material:* -----

**.01** An application by the Exchange to strike a security from listing and/or registration will be submitted to the Securities and Exchange Commission electronically on Form 25 via the EDGAR system, and a copy of the application on Form 25 will be promptly delivered to the issuer.

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### **Rule 811. Delisting Policies and Procedures**

Once Exchange staff identifies a company as being below the Exchange's continued listing criteria (and not able to otherwise qualify under an initial listing standard), Exchange staff will so notify the company by letter. This letter will also provide the company with an opportunity to provide the Exchange staff with a plan (the "Plan") advising the Exchange of action the company has taken, or will take, that would bring it into compliance with the continued listing standards within three months of receipt of the letter. The company has 30 days from the receipt of the letter to submit its Plan to the Exchange for review; if it does not submit a Plan within this period the Exchange will promptly initiate delisting proceedings as provided in subsections (a)—(g) below. The Exchange will evaluate the Plan and determine whether the company has made reasonable demonstration in the Plan of an ability to regain compliance with the continued listing standards within the three month period. The Exchange will make such determination within 45 days of receipt of the proposed Plan, and will promptly notify the company of its determination in writing. If the Exchange does not accept the Plan, the Exchange will promptly initiate delisting proceedings as provided in subsections (a)—(g) below. If Exchange staff accepts the Plan, the three month Plan period will commence on the date the issuer is notified of such acceptance. The Exchange will then review the company on a periodic basis for compliance with the Plan. If the company does not show progress consistent with the Plan, the Exchange will review the circumstances and variance, and determine whether such variance warrants the commencement of delisting procedures. Should the Exchange determine to proceed with delisting procedures, it may do so regardless of the company's continued listing status at that time. If, prior to the end of the three month Plan period, the company is able to demonstrate compliance with the continued listing standards at the end of the three month Plan period, the Exchange will deem the Plan period over. If the company does not meet continued listing standards at the end of the three month Plan period, the Exchange will promptly initiate delisting procedures. If the company, within twelve months of the end of the Plan (including any early termination of the Plan period ) is again determined to be below continued listing standards, the Exchange will examine the relationship between the two incidents of falling below continued listing standards and re-evaluate the company's method of recovery from the first incident. It will then take appropriate action which, depending upon the circumstances, may include truncating the procedures described above or immediately initiating delisting procedures.

Whenever the Exchange determines that it is appropriate to consider removing a security from listing for other than routine reasons (redemptions or maturities) it will follow the following procedures:

- (a) The Exchange will furnish the company with a statement in writing which indicates the facts and circumstances which have caused the Exchange to consider the removal of the company's security from listing (or unlisted trading) and which specifies the delisting

policies and guidelines which are applicable. Such statement will also request that the company respond in writing within 20 days with any reasons why the company believes the security should not be removed from listing (or unlisted trading).

- (b) If after reviewing the company's response, the Exchange determines that the security should be removed, it will provide written notification to the company which delineates the reasons for the decision and the delisting policies which will apply. The company will also be informed that it may appeal to the Board of Directors of the Exchange and request a hearing.
- (c) If, within five days after receiving such written notice, the company informs the Exchange in writing that it wishes to appeal the decision and requests an opportunity for a hearing, the Exchange will give the company at least ten days prior written notice of the time and place at which a hearing shall be held. If no written request for a hearing is received within five days of receipt of such notice, the decision of the Exchange will become final and any further appeal rights will be waived.
- (d) Such hearing shall be held before an ad hoc Exchange committee appointed for the purpose of acting in an advisory capacity to the Board of Directors. The Committee will consist of three persons, at least one of which must be a member of the Board of Directors. The other two members of the Committee may be Directors, members, Exchange Presiding Officials, and/or other persons (not having an interest in the matter) as the Chairman of the Board of Directors shall determine.
- (e) Any documents or other written material which the company wishes the Committee to consider should be submitted to the Exchange at least five days prior to the date of the hearing.
- (f) At the hearing, the issuer and Exchange Staff must prove their respective cases by presenting testimony, evidence, and argument to the Committee. Both parties may present any witnesses they wish and all those witnesses and parties who testify are subject to cross examination by the opposing side and questioning from the members of the Committee. The form and manner in which the actual hearing will be conducted will be established by the Committee so as to assure the orderly conduct of the proceeding. At the hearing, the Committee may require the parties to furnish additional written information which has come to its attention.
- (g) At the conclusion of the hearing the Committee will present its findings to the Board of Directors so that a final determination can be made. Such decision shall be final. If the Committee or the Board determines that the security of the issuer should be removed from listing, an application shall be submitted by the Exchange to the Securities and Exchange Commission ("Commission") to strike the security from listing and registration and a copy of such application shall be furnished to the issuer in accordance with Section 12 of the Exchange Act and the rules promulgated thereunder. If the decision is that the security should not be removed from listing, the issuer will receive a notice to that effect from the Exchange.

An application by the Exchange to strike a security from listing and / or registration will be submitted to the Commission electronically on Form 25 via the EDGAR system, and a copy of the application on Form 25 will be promptly delivered to the issuer.

The actions required to be taken by the Exchange and issuers to strike a security from listing and / or registration are set forth in Rule 12d2-2 and Rule 19d-1 promulgated under the Exchange Act.

The relevant portions of Section 12 of the Exchange Act and Rules promulgated thereunder pertaining to the suspension, removal or withdrawal of registration and/ or listing of securities, and the timing thereof are summarized below:

- (1) Withdrawal of registration and / or striking for certain corporate events from listing of Exchange listed security -Section 12(d) of the Exchange Act and Rule 12d2-d(a) thereunder;
- (2) suspension of trading by Exchange-Rule 12d2-1 under the Exchange Act;
- (3) application of Exchange to strike security from listing and or / registration and notice provisions - Rule 12d2-2(a) and (b) under the Exchange Act;
- (4) application of issuer to withdraw from listing and registration and notice provisions - Rule 12d2-2(c) under the Exchange Act;
- (5) timing and effectiveness of application by issuer or Exchange to strike a security from listing and / or registration - Rule 12d2-2(d) under the Exchange Act; or
- (6) exemption of certain standardized options and futures products from Section 12(d) of the Act - Rule 12d2-2(e)

In appropriate circumstances, when the Exchange is considering delisting because a company no longer meets the requirements for continued listing, a company may file a delisting application pursuant to Rule 809(b) and (c).

Pursuant to this Rule, the Exchange will provide public notice of its final determination to remove a security from listing and/or registration by issuing a press release and posting a notice on its web site. Such notice will be disseminated no fewer than ten days before the delisting becomes effective pursuant to paragraph (d)(1) of Rule 12d2-2 under the Exchange Act, and will remain posted on the web site until the delisting is effective.

### **Rule 812. Voting Rights Listing Standards—Disenfranchisement Rule**

(a) No Rule, stated policy, practice, or interpretation of this Exchange shall permit the listing, or the continuance of the listing, of any common stock or other equity security of a domestic issuer if, on or after July 7, 1988, the issuer of such security issues any class of security, or takes other corporate action, with the effect of nullifying, restricting or disparately reducing the per share

voting rights of holders of an outstanding class or classes of common stock of such issuer registered pursuant to Section 12 of the Act.

(b) For the purpose of paragraph (a) of this Rule, the following shall be presumed to have the effect of nullifying, restricting, or disparately reducing the per share voting rights of an outstanding class or classes of common stock:

- (1) corporate action to impose any restriction on the voting power of shares of the common stock of the issuer held by a beneficial or record holder based on the number of shares held by such beneficial or record holder;
- (2) corporate action to impose any restriction on the voting power of shares of the common stock of the issuer held by a beneficial or record holder based on the length of time such shares have been held by such beneficial or record holder;
- (3) any issuance of securities through an exchange offer by the issuer for shares of an outstanding class of the common stock of the issuer, in which the securities issued have voting rights greater than or less than the per share voting rights of any outstanding class of the common stock of the issuer;
- (4) any issuance of securities pursuant to a stock dividend, or any other type of distribution of stock, in which the securities issued have voting rights greater than the per share voting rights of any outstanding class of the common stock of the issuer.

(c) For the purpose of paragraph (a) of this Rule, the following, standing alone, shall be presumed not to have the effect of nullifying, restricting, or disparately reducing the per share voting rights of holders of an outstanding class or classes of common stock:

- (1) the issuance of securities pursuant to an initial registered public offering;
- (2) the issuance of any class of securities, through a registered public offering, with voting rights not greater than the per share voting rights of any outstanding class of the common stock of the issuer;
- (3) the issuance of any class of securities to effect a bona fide merger or acquisition, with voting rights not greater than the per share voting rights of any outstanding class of the common stock of the issuer;
- (4) corporate action taken pursuant to state law requiring a state's domestic corporation to condition the voting rights of a beneficial or record holder of a specified threshold percentage of the corporation's voting stock on the approval of the corporation's independent shareholders;
- (5) such other action, including the issuance of any class of securities under specified circumstances, which is deemed, pursuant to the rules of another exchange or association, to be excluded from the prohibition in paragraph (a) of this Rule.

(d) Definitions

The following terms shall have the following meanings for purposes of this Rule:

- (1) The term "Act" shall mean the Securities Exchange Act of 1934, as amended.
- (2) The term "common stock" shall include any security of an issuer designated as common stock and any security of an issuer, however designated, which, by statute or by its terms, is a common stock (e.g., a security which entitles the holders thereof to vote generally on matters submitted to the issuer's security holders for a vote).
- (3) The term "equity security" shall include any equity security defined as such pursuant to Rule 3a11-1 under the Act.
- (4) The term "domestic issuer" shall mean an issuer that is not a "foreign private issuer" as defined in Rule 3b-4 under the Act.
- (5) The term "security" shall include any security defined as such pursuant to Section 3(a)(10) of the Act, but shall exclude any class of security having a preference or priority over the issuer's common stock as to dividends, interest payments, redemption or payments in liquidation, if the voting rights of such securities only become effective as a result of specified events, not relating to an acquisition of the common stock of the issuer, which reasonably can be expected to jeopardize the issuer's financial ability to meet its payment obligations to the holders of that class of securities.
- (6) the term "exchange" shall mean a national securities exchange, registered as such with the Securities and Exchange Commission pursuant to Section 6 of the Act, which makes transaction reports available pursuant to Rule 11Aa3-1 under the Act.
- (7) the term "association" shall mean a national securities association registered as such with the Securities and Exchange Commission pursuant to Section 15A of the Act.

**Rule 813. Certification to Securities and Exchange Commission**

Pursuant to Rules 801 through 809, the Board may delegate to the Exchange staff, in respect to securities, the authority to list, admit to dealings, suspend from dealings and remove from the list.

The Exchange staff is authorized to certify to the Securities and Exchange Commission that the Exchange approved the listing and registration of securities and the admission of securities to dealings, and to file applications for the removal of securities from listing and registration and from dealings.

**Rule 814. Outline of Exchange Disclosure Policies**

The Exchange requires every listed company to make available to the public information necessary for informed investing and to take reasonable steps to ensure that all who invest in its

securities enjoy equal access to such information. In applying this fundamental principle, the Exchange has adopted the following six specific policies concerning disclosure:

- (a) **Immediate Public Disclosure of Material Information**—A listed company is required to make immediate public disclosure of all material information concerning its affairs, except in unusual circumstances. When such disclosure is to be made during trading hours, it is essential that the Exchange be notified prior to the announcement.
- (b) **Thorough Public Dissemination**—A listed company is required to release material information to the public in a manner designed to obtain the widest possible public dissemination.
- (c) **Clarification or Confirmation of Rumors and Reports**—Whenever a listed company becomes aware of a rumor or report, true or false, that contains information that is likely to have, or has had, an effect on the trading in its securities, or would be likely to have a bearing on investment decisions, the company is required to publicly clarify the rumor or report as promptly as possible.
- (d) **Response to Unusual Market Activity**—Whenever unusual market activity takes place in a listed company's securities, the company is expected to make inquiry to determine whether rumors or other conditions requiring corrective action exist, and, if so, to take whatever action is appropriate.

If, after this review, the unusual market activity remains unexplained, it may be appropriate for the company to issue a "no news" release in which it announces that there has been no material development in its business affairs not previously disclosed and to its knowledge, there is no other reason to account for the unusual market activity.

- (e) **Unwarranted Promotional Disclosure**—A listed company should refrain from promotional disclosure activity which exceeds that necessary to enable the public to make informed investment decisions. Such activity includes inappropriately worded news releases, public announcements not justified by actual developments in a company's affairs, exaggerated reports or predictions, flamboyant wording and other forms of over-stated or over-zealous disclosure activity which may mislead investors and cause unwarranted price movements and activity in a company's securities.
- (f) **Insider Trading**—Insiders should not trade on the basis of material information which is not known to the investing public. Moreover, insiders should refrain from trading, even after material information has been released to the press and other media, for a period sufficient to permit thorough public dissemination and evaluation of the information.

### **Rule 815. Content and Preparation of Public Announcements**

The content of a press release or other public announcement is as important as its timing. Each announcement should be reviewed by the Exchange at least 15 minutes prior to its public dissemination. In addition, each release should conform to the following criteria:



- (a) Be factual, clear and succinct;
- (b) Contain sufficient quantitative information to allow investors to evaluate its relative importance to the activities of the company;
- (c) Be balanced and fair while avoiding the following:
  - The omission of important unfavorable facts, or the slighting of such facts (by "burying" them at the end of a press release).
  - The presentation of favorable possibilities as certain, or as more probable than is actually the case.
  - The presentation of projections without sufficient qualification or without sufficient factual basis.
  - Negative statements phrased so as to create a positive implication: "The company cannot now predict whether the development will have a materially favorable effect on its earnings," (creating the implication that the effect will be favorable even if not materially favorable) or "The company expects that the development will not have a materially favorable effect on earnings in the immediate future," (creating the implication that the development will eventually have materially favorable effect).
  - The use of over technical language or promotional jargon calculated to excite rather than to inform.
- (d) Explain, if the consequences or effects of the information on the company's future prospects cannot be assessed, why this is so; and
- (e) Clarify and point out any reasonable alternatives where the public announcement undertakes to interpret information disclosed.

The requirements of the Federal securities laws must also be carefully considered in the preparation of public announcements. In particular, these laws may impose special restrictions on the extent of permissible disclosure before or during a public offering of securities or a solicitation of proxies. Generally, in such circumstances, while the restrictions of the securities laws may affect the character of disclosure, they do not prohibit the timely disclosure of material factual information.

Whenever a conflict arises, the company should discuss the matter with the Securities and Exchange Commission, as well as with the Exchange.

Every press release or public announcement should be either prepared or reviewed by a company official having familiarity with the matters about which disclosure is to be made and a company official familiar with the requirements of the Exchange, (as well as any applicable requirements

of the securities laws). In addition, review of these documents by legal counsel is often desirable and necessary, depending on the importance and complexity of the announcement.

**Rule 816. Dividends and Stock Splits Notice of Dividend or Non-Payment of Dividend**

(a) A company is required to publicize and notify the Exchange immediately of any action taken by it in respect to the payment or non-payment of dividends.

(b) If a company has been paying regular dividends and its board of directors determines to cease or postpone such payments, this fact should be announced at least twice: First, immediately at the time the board decides to cease or postpone payment, and second, on the next monthly, quarterly, or other periodic date of declaration (assuming it is again decided to omit or postpone payment). Such announcement should be released to the press and notice should be given to the Exchange as specified in Rule 818.

**Rule 817. Record Date**

A company is not permitted to close its stock transfer books for any reason, including the declaration of a dividend. Rather, it must establish a record date for shareholders entitled to a dividend which is at least ten days after the date on which the dividend is declared (declaration date).

A company is also required to give the Exchange at least ten days notice in advance of a record date established for any other purpose, including meetings of shareholders.

**Rule 818. Form of Notice**

Immediately after the board of directors has declared a cash or stock dividend, the company should: (a) release the news to the newspapers and news services, including the news-ticker services operated by Dow Jones & Company, Inc., and Reuters Ltd., and (b) notify the Exchange by telephone, telegram, telex, or facsimile transmission and confirm by letter. The announcement and notice should specify the name of the company, date of declaration, amount (per share) of the dividend, and the record and payment dates. In the case of stock dividends, the notice to the Exchange should also state whether cash is to be paid or order forms are to be issued in settlement of fractional share interests resulting from the stock dividend. If cash is to be paid, state the basis for determining the amount (for example, based on the "last sale" on the record date).

The stock dividend notice should also state the "cut-off" date (usually five to seven days after the record date) until which the transfer agent for the stock will accept instructions from brokers as to their requirements for full shares or cash with respect to stock registered in their names, as nominees, and as to which they must make exact allocations among their clients.

**Rule 819. Split-Ups or Stock Dividends on Lower Priced Issues**

The Exchange does not view favorably a split-up of a stock selling in a low price range or a split-up or substantial stock dividend which may result in an abnormally low price range for shares after the split or stock dividend. Any company considering a split-up (or a stock dividend of more than 5%) which would result in an adjusted price of less than \$5.00 per share for its stock should consult with the Exchange in advance of taking formal action.

**Rule 820. Accounting for Stock Dividends**

A listed company must account for stock dividends and stock splits in accordance with generally accepted accounting principles.

In instances where it is not clear that the accounting treatment being followed is in compliance with generally accepted accounting principles ("GAAP"), the Exchange may require that the company provide a written opinion from its independent accountants that the accounting treatment complies with GAAP.

**Rule 821. Cash in Lieu of Fractional Shares**

Most companies prefer to pay cash in settlement of fraction share interests since this procedure is the least expensive and easiest method. The work and problems of member organizations are simplified when fractional share interests are paid in cash, since the use of order forms involves special handling. If cash is paid, the procedure is greatly simplified. For the foregoing reasons, the Exchange urges listed companies to follow the procedure of paying cash in lieu of fractional share interests.

The usual procedure of most companies is to compute the cash payment based on the last sale price of the stock on the record date, because: (a) the record date is the date on which the stockholder becomes "long" the stock dividend shares; and (b) by such date the stock will have been quoted "ex-dividend" (except in the case of large stock dividends of 25% or more), so that the market price of the stock will have been adjusted for the dividend. A company may prefer to compute the cash payment based on the last sale price of the stock on the dividend declaration date. Where this is done, the company should adjust the "dividend on" selling price of the stock on the declaration date to an "ex-dividend" basis. Otherwise, there will be an overpayment of the cash portion of the dividend. For example, if a company declares a 10% stock dividend and the last sale price on the declaration date is \$11, the value of the dividend at that time computes to \$1 per share, or an adjusted "ex-dividend" price for the stock of \$10 (10/11ths of \$11). On this basis, the fractional share interests should be paid for in cash at the rate of \$10 per full share.

This adjustment is even more important in cases of large stock dividends (25% or more). In these instances, the Exchange may postpone the "ex-dividend" date until the dividend has been paid (see Rule 831). For example, in the case of a 50% stock dividend, the "theoretical ex-dividend" price would be equivalent to 2/3rds of the "dividend on" price of the stock. Thus, if the price of the stock at the close of business on the declaration or record date is \$33 per share, the "theoretical ex-dividend" price would be adjusted to \$22 per share. Accordingly, fractional share interests should be settled based upon a price of \$22 per share.

**Rule 822. Warrant Splits**

Whenever a company having warrants listed on the Exchange effects a split of 3-for-2 or greater in the underlying shares, the Exchange requires that a corresponding split be made in the warrants.

**Rule 823. Three Day Delivery Plan**

All transactions effected on the Exchange (unless otherwise specified) will be settled pursuant to the "three day delivery plan". Under the three day delivery plan, a "regular way" transaction is

due for settlement by delivery of the securities against payment on the third business day after the transaction date. For example, a "regular way" transaction made on Monday is due for settlement on the Thursday of the same week; a transaction on Tuesday, is due for settlement on Friday of the same week, etc. (an intervening holiday postpones the settlement date by one business day).

**Rule 824. Definition of "Ex-dividend" and "Ex-rights"**

The term "ex-dividend" means "without the dividend" and the term "ex-rights" means "without the rights". The effect of quoting a stock "ex-dividend" or "ex-rights" is that quotations for, and transactions in, the stock on and after the "ex-dividend" or "ex-rights" date reflect the fact that the buyer is not entitled to the dividend or rights.

Transactions in stocks are not ex-dividend or ex-rights until an announcement to that effect is made by the Exchange.

**Rule 825. Ex-dividend Procedure**

Transactions in stocks (except those made for "cash") are ex-dividend on the first business day preceding the record date. If the record date selected is not a business day, the stock will be quoted ex-dividend on the second preceding business day. "Cash" transactions are ex-dividend on the business day following the record date.

**Rule 826. Ex-rights Procedure**

In the establishment and announcement of ex-rights dates, the Exchange proceeds as follows:

**Subscription Price Established**—Where the Subscription price and all other terms of the rights and subscription offering are established sufficiently in advance of the record date to determine the value of the rights (and the registration statement relating to the offering has been declared effective by the SEC sufficiently in advance of the record date), transactions in stocks to which the rights pertain are quoted ex-rights in a manner similar to that described in Rule 825 above.

**Subscription Price Not Known**—Where the subscription price and all other terms of the rights and subscription offering are not known sufficiently in advance of the record date to determine the value of the rights, the Exchange will rule the stock ex-rights on the day following the date the rights commence trading (which, in most instances, is a date subsequent to the record date for the subscription offering).

Under such circumstances, the Exchange requires that all deliveries of stock made after the record date in settlement of transactions made prior to the ex-rights date, and on a "rights on" basis carry "due bills" for the rights.

**Rule 827. Return of Dividend**

Members and member organizations, receiving deliveries in advance of the record date against ex-dividend or ex-rights transactions, who are able to effect transfer of the purchased security by the record date, will be responsible to return the dividend or rights to the member or member organization from whom delivery was received.

**Rule 828. Optional Dividends**

When a dividend is payable at the option of the stockholder, in either cash or securities, the stock will be ex-dividend the value of the cash or securities, whichever is greater.

**Rule 829. Canadian Currency**

When a dividend is payable in Canadian currency, the stock will be "ex" the amount of the dividend in U.S. currency at the rate of exchange prevailing on the ex-dividend date. Orders will not be reduced to an ex-dividend basis by the amount of any tax on the dividend deductible at the source.

**Rule 830. American Depository Receipts**

In the case of American shares or American Depository Receipts for stocks of foreign (other than Canadian) corporations, the reduction of orders to an ex-dividend basis shall be for the net amount of the dividend in U.S. currency after giving effect to all deductions, including taxes, foreign exchange discount, and the expenses of the Depository.

**Rule 831. Special Ex-dividend Rulings**

If, as required by Exchange Rules, the Exchange does not receive a notice of a dividend declaration sufficiently in advance of a record date to permit a stock to be quoted "ex-dividend" in the usual manner, the Exchange quotes the stock "ex-dividend" as soon as possible following receipt of notice of the dividend. The Exchange also rules that the "dividend on" purchaser (in transactions made during the interval between the date when the stock should have been quoted "ex" and the date when the stock is actually quoted "ex") is entitled to receive the dividend from the seller. The seller in such transactions is required to give to the purchaser a due bill, covering the amount of the dividend, to be redeemed subsequent to the payment date for the dividend.

Larger or Valuable Dividends, Dividends "Not in Kind", and Split-ups Effected as Stock Distributions—When large or valuable cash or stock dividends (usually 25% or more), or a dividend "not in kind", (i.e., a distribution of securities of another issuer), or a split-up is declared, it is the policy of the Exchange to postpone the "ex-dividend" or "ex-distribution" date until the dividend has been paid. The reason for this is so that the stock is not quoted at the substantially lower "ex-dividend" or "ex-distribution" price until the distribution is received by shareholders. If this were not the case, the collateral value of the stock would be reduced between the "ex" date and payment date, and the shareholder might be required to provide additional collateral.

In the case of dividends "not in kind" (regardless of its size in relation to the listed security), it will be necessary to postpone the "ex-dividend" date in the event a market does not exist in the security to be distributed at the time the listed issue would normally be quoted "ex-dividend".

In all of the above instances, the postponement of the "ex" date until after the payment date makes it possible for shareholders to sell all of their holdings at one time, on a "dividend on" basis (prior to the "ex" date). As a result of this ruling, purchasers of the stock prior to the "ex" date continue to pay a "dividend on" price, but will not receive the dividend payment from the company. Accordingly, the Exchange Rules that the "dividend on" purchaser is entitled to receive the dividend from the seller. The seller, in turn, is required to give the purchaser a due bill, covering the amount of the dividend, to be redeemed on the date fixed by the Exchange.

"Cash" Transactions—The Ex-Dividend Rule of the Exchange specifies that "cash" transactions (in which delivery of the security must be made on the date of the transaction) shall be "ex-dividend" on the business day following the record date.

### **Rule 832. Price Adjustment of Open Orders on "Ex-date"**

When a security is quoted ex-dividend, ex-distribution, ex-rights or ex-interest, all open orders to buy and open stop orders to sell shall be reduced by the cash value of the payment or rights, except where the security is quoted "ex" a stock dividend or stock distribution.

When a security is quoted "ex" a stock dividend, or stock distribution all open orders including open orders to sell and open orders to buy, shall be reduced by the proportional value of the dividend.

With respect to options contracts, open orders for one or more option contracts dealt in on the Exchange held by members or member organizations prior to the effective date of an adjustment by The Options Clearing Corporation ("OCC") to the terms of a class of options pursuant to the rules of OCC shall be adjusted on the "ex-date" by such amount as OCC shall specify, unless otherwise instructed by the customer.

### **Rule 833. Accounting**

Rule 203 of the rules of Conduct of the American Institute of Certified Public Accounts' Code of Professional Ethics states that a member shall not express an opinion that financial statements are presented in conformity with GAAP, if such statements contain any departure from an accounting principle, promulgated by the body designated by the Institute to establish such principles, which has a material effect on the financial statements taken as a whole.

The Institute has designated the Financial Accounting Standards Board as such body and has also resolved that FASB Statements of Financial Accounting Standards together with those Accounting Research Bulletins and Accounting Principles Board Opinions, which are not superseded by action of the FASB, constitute accounting principles as contemplated by Rule 203.

The Exchange expects listed companies and their auditors, whether or not members of the AICPA, to adhere to the Institute's requirements concerning departures from GAAP.

### **Rule 834. Independent Accountants**

All financial statements contained in the annual report of a listed company to its shareholders are required to be audited by independent accountants qualified under the laws of a state or country;

and shall be accompanied by a report of the independent accounts prepared in accordance with Regulation S-X (Rule 2.02), showing the scope of their audit and any qualifications.

**Rule 835. Change in Accountants**

A listed company is required to notify the Exchange promptly (prior to filing its 8-K) if it changes independent accountants and must state the reason for such change.

**Rule 836. Defaults**

A listed company must immediately notify the Exchange whenever there exists: (a) an event of default in any technical covenant of its outstanding loan agreements; (b) a default in interest or principal payments on outstanding indebtedness; (c) a default in cumulative dividend payments on an outstanding preferred stock issue; or (d) a failure to meet the sinking fund or redemption provisions of any outstanding debt or equity issues of the company.

**Rule 837. Annual Reports**

(a) A listed company is required to publish and furnish to its shareholders (or to holders of any other listed security when its common stock is not listed on a national securities exchange) an annual report containing audited financial statements of the company and its subsidiaries. Three copies of the report must be filed with the Exchange at the time it is distributed to shareholders. If the report is filed on the SEC's EDGAR system, such report will be deemed sent to the Exchange when accepted for filing on EDGAR.

(b) Annual reports must be submitted to shareholders and filed with the Exchange at least ten days in advance of the annual meeting of shareholders, and not later than four months after the close of the last preceding fiscal year of the company.

**Rule 838. Request for Extension**

(a) If, due to circumstances beyond a company's control, it becomes impossible to furnish shareholders with the required annual report within four months after the end of the company's fiscal year, the company should request an extension of time in which to distribute its annual report, and set forth the basis for its request. The request should be in the form of a letter directed to the Exchange as soon as it has been determined that the annual report cannot be distributed on time and, in any event, at least two weeks before the four months have expired. (A similar request must also be made of the SEC on Form 12b-25 in connection with annual reports on Form 10-K).

(b) The Exchange may grant the request if: there is good cause for the delay, the company has a record of filing annual reports on time in the past, and the lack of information as to the financial condition of the company does not warrant a halt or suspension of trading:

- (1) Good cause for delay in the publication of an annual report includes: catastrophes such as a fire, flood, war, destruction of a company's records or unavoidable regulatory delays such as a pending review by the SEC of financial statements in a preliminary prospectus or proxy statement.

(2) Failure to retain auditors in time, shortages of personnel, or other avoidable reasons, do not generally constitute good cause for a delay. In addition, failure to clear a proxy statement in time to mail it with the annual report is not considered a good cause for a delay beyond the four-month period for the mailing of the annual report.

(c) If the Exchange, for any reason, does not grant the request, the securities of the company are subject to possible halt or suspension from trading after the expiration of the four-month period.

### **Rule 839. Contents of Report**

The Annual Report of a listed company must contain the following financial statements:

- (a) balance sheets;
- (b) income statement; and
- (c) statements of changes in financial position.

Such financial statements should be prepared in accordance with GAAP and Regulation S-X which requires balance sheets to be presented for each of the two most recent fiscal years and statements of income and changes in financial position to be presented for each of the three fiscal years preceding the date of the most recent balance sheet being filed.

### **Rule 840. Options**

A listed company is required to disclose in its report to shareholders, for the year covered by the report: (a) the number of unoptioned shares available for granting under the plan at the beginning and end of the year; and (b) any changes in the exercise price of outstanding options as a result of cancellations, reissuance or otherwise. Price changes resulting from the normal operation of anti-dilution provisions of options need not be reported.

### **Rule 841. President's Letter**

Most annual reports contain a letter to shareholders from the President or other officer of the company. The Exchange expects that such letter, as well as all other releases and statements by the company, will be factual and that judgment and restraint will be used in not publicizing information which may be construed as over-optimistic, slanted or promotional.

### **Rule 842. Quarterly Reports**

(a) Under SEC rules, quarterly statements of operating results and financial position (generally on Form 10-Q) must be prepared pursuant to GAAP and in conformity with Regulation S-X.

(b) SEC rules require that quarterly statements be published within 45 days after the end of the company's first, second and third fiscal quarters. No statement is required for the fourth quarter, since that period is covered by the annual report.

(c) A company should immediately notify the Exchange whenever it files with the SEC a request for extension of the filing of its quarterly statements on SEC Form 12b-25.



**Rule 843. Dissemination of Quarterly Reports**

Quarterly statements (unaudited) are not required to be sent to security holders by any company whose common stock is listed on a national securities exchange but shall be made available to security holders upon request. The Exchange recommends that companies send such statements to shareholders.

Companies whose common stock is not listed on a national securities exchange must send quarterly statements (unaudited) to holders of its securities which are listed on the Exchange.

Such information (whether or not furnished to security holders) must be disseminated in the form of a press release to one or more newspapers of general circulation regularly publishing financial news and to one or more of the national news-wire services. Three copies must also be sent to the Exchange.

Each issuer which is subject to SEC rule 13a-13 shall make available to shareholders copies of quarterly reports including statements of operating results either prior to or as soon as practicable following the company's filing its Form 10-Q with the SEC. If the form of such quarterly report differs from the Form 10-Q, both the quarterly report and the Form 10-Q shall be filed with the Exchange. The statement of operations contained in quarterly reports shall disclose, at a minimum, any substantial items of an unusual or non-recurrent nature and net income and the amount of estimated federal taxes.

Each issuer which is not subject to SEC rule 13a-13 and which is required to file with the SEC, or another federal or state regulatory authority, interim reports relating primarily to operations and financial position, shall make available to shareholders reports which reflect the information contained in those interim reports. Such reports shall be made available to shareholders either before or as soon as practicable following filing with the appropriate regulatory authority. If the form of the interim report made available to shareholders differs from that filed with the regulatory authority, both the report to shareholders and the report to the regulatory authority shall be filed with the Exchange.

**Rule 844. Filing Material Mailed to Shareholders**

A listed company is required to file with the Exchange three copies of all material mailed to shareholders (including mailings for annual and special shareholder's meetings) such as notices, proxy statements, forms of proxy and other soliciting materials. This material should be sent to the Exchange as soon as it is mailed to shareholders.

**Rule 845. Charter and By-Law Amendment**

A listed company is required to file with the Exchange a copy of any amendment to its charter or by-laws (or equivalent documents) as soon as it becomes effective. Such filing must include:

- (a) in the case of a charter amendment-a certification by the Secretary of State (or similar authority) that the filing is a true and complete copy of the amendments; and
- (b) in the case of a by-law amendment-a resolution of the board of directors (certified by an officer of the company) authorizing the by-law amendment.

**Rule 846. Shareholder Eligibility and Notice of Meetings**

A listed company must immediately notify the Exchange when it establishes a date for the taking of a record of its shareholders. Such record date, which will determine shareholder eligibility to vote at a shareholder meeting, shall be at least ten days in advance of such meeting. Exchange Rules prohibit the closing of a listed company's transfer books, for any purpose.

In addition, a listed company is required to give written notice to shareholders in advance of all shareholders' meetings, and to provide for such notice in its by-laws.

The Exchange recommends that such notice and proxy soliciting material be received by stockholders as many days as possible (preferably at least 20 days) in advance of the meeting. A similar arrangement should be followed in delivering such proxy material to member organizations in order to allow such organizations ample time to mail the material to, and receive voting instructions from, beneficial owners.

In the case of a routine meeting, member organizations should be afforded ample opportunity in which to relay proxy materials and specific voting instructions between the company and the beneficial holders of record.

If a company plans to request brokers to forward proxy-soliciting material to customers, it should communicate with the brokers at least ten days in advance of the voting record date for the meeting in order to:

- (a) inform them of the record and meeting dates;
- (b) provide them with a return postcard on which they may indicate the number of sets of proxy material required for transmittal to customers; and
- (c) agree to provide reimbursement to them for out-of-pocket expenses incurred in handling the material. The sets of proxy material distributed to member organizations should include the required number of proxies and annual reports to assure compliance with the Rules and Regulations of the Exchange and the rules and regulations of the SEC.

**Rule 847. Annual Meetings**

A listed company is required to hold a meeting of its stockholders annually, at which a quorum shall be in effect, as specified in the by-laws, to elect directors and to take action on other corporate matters in accordance with its charter, by-laws and applicable state or other laws. In no case shall a quorum be less than 33 1/3 percent of the outstanding shares of the common voting stock. In the event unusual circumstances affecting the company shall preclude the holding of its annual meeting within a reasonable period after the time specified in its charter, the Exchange must be informed in writing, stating the reasons for the delay. The letter should also articulate the good faith efforts being undertaken by the company in order to ensure that such annual meeting is held as soon as reasonably practicable in light of the circumstances causing the delay.

**Rule 848. Meeting and Solicitation of Proxies Required**

A listed company is required, with respect to any matter requiring authorization by its stockholders, to hold a meeting of its stockholders in accordance with its charter, by-laws and applicable state or other laws and to solicit proxies (pursuant to a proxy statement conforming to the proxy rules of the SEC) for such meeting of stockholders; unless, upon prior Exchange review and approval, the Exchange permits the solicitation, from all stockholders of record, of written consents (conforming to the proxy rules of the SEC) in lieu of such meeting and proxy solicitation. An information statement under Regulation 14C of the SEC is not considered a proxy statement for purposes of this requirement. A copy of all proxy solicitations shall be provided to the Exchange.

#### **Rule 849. Audit Committee/Conflicts of Interest**

**Introductory Note:** The requirements set forth in this Rule 849 shall continue to apply pending implementation of Rule 867.

(a) A listed company shall establish and maintain an audit committee, a majority of the members of which shall be independent directors, as defined in Rule 851. The requirements set forth in this Rule 849(a) shall continue to apply pending the implementation of the new requirements set forth in 849(b)—(j) and Commentary Sections (1)—(4). Listed issuers must be in compliance with such new requirements, subject to any applicable exemptions set forth therein, by the following dates: (A) July 31, 2005 for foreign private issuers and small business issuers as defined in Commission Rule 12b-2 under the Securities Exchange Act of 1934 (the Act); and (B) for all other listed issuers, the earlier of the listed issuer's first annual shareholders meeting after January 15, 2004, or October 31, 2004.

(b) **Listing Standards Relating to Audit Committees.** Each issuer of securities listed on the Exchange must have, and certify that it has and will continue to have, an audit committee, as defined in Section 3(a)(58) of the Securities Exchange Act of 1934, of at least three members each of whom meet the following criteria.

##### **(1) Independence.**

(i) Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies. The following restrictions apply to every audit committee member:

(A) **Employees.** A director who is an employee (including non-employee executive officers) of the company or any of its affiliates may not serve on the audit committee until three years following the termination of his or her employment. In the event the employment relationship is with a former parent or predecessor of the company, the director could serve on the audit committee after three years following the termination of the relationship between the company and the former parent or predecessor. "Affiliate" for purposes of this subsection (A) includes a

subsidiary, sibling company, predecessor, parent company, or former parent company.

(B) **Business Relationship.** A director (a) who is a partner, controlling shareholder, or executive officer of an organization that has a business relationship with the company, or (b) who has a direct business relationship with the company (e.g., as a consultant), may serve on the audit committee only if the issuer's board of directors determines in its business judgment that the relationship does not interfere with the director's exercise of independent judgment. In making a determination regarding the independence of a director pursuant to this paragraph, the board of directors should consider, among other things, the materiality of the relationship to the issuer, to the director, and, if applicable, to the organization with which the director is affiliated.

"Business relationships" can include commercial, industrial, banking, consulting, legal, accounting and other relationships. A director can have this relationship directly with the company, or the director can be a partner, officer or employee of an organization that has such a relationship. The director, may serve on the audit committee without the above-referenced board of directors' determination after three years following the termination of, as applicable, either (a) the relationship between the organization with which the director is affiliated and the company, (b) the relationship between the director and his or her partnership status, shareholder interest or executive officer position, or (c) the direct business relationship between the director and the company.

(C) **Cross Compensation Committee Link.** A director who is employed as an executive of another corporation where any of the company's executives serves on that corporation's compensation committee may not serve on the audit committee.

(D) **Immediate Family.** A director who is an Immediate Family member of an individual who is an executive officer of the company or any of its affiliates cannot serve on the audit committee until three years following the termination of such employment relationship. "Immediate Family" includes a person's spouse, parents, children, siblings, mothers-in-law and fathers-in-law, sons and daughters-in-law, and anyone (other than employees) who shares such person's home.

(ii) **Independence requirements for non-investment company issuers.** In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

(A) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan

(including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or

(B) Be an affiliated person of the issuer or any subsidiary thereof.

(iii) Independence requirements for investment company issuers. In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

(A) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or

(B) Be an "interested person" of the issuer as defined in section 2(a)(19) of the Investment Company Act of 1940.

(iv) Exemptions from the independence requirements.

(A) For an issuer listing securities pursuant to a registration statement under section 12 of the Act, or for an issuer that has a registration statement under the Securities Act of 1933 covering an initial public offering of securities to be listed by the issuer, where in each case the listed issuer was not, immediately prior to the effective date of such registration statement, required to file reports with the Commission pursuant to section 13(a) or 15(d) of the Act; and

(1) A minority of the members of the listed issuer's audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for one year from the date of effectiveness of such registration statement.

(B) An audit committee member that sits on the board of directors of a listed issuer and an affiliate of the listed issuer is exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if the member, except for being a director on each such board of directors, otherwise meets the independence requirements of paragraph (b)(1)(ii) of this section for each such entity, including the receipt of only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of each such entity.

(C) An employee of a foreign private issuer who is not an executive officer of the foreign private issuer is exempt from the requirements of paragraph (b)(1)(ii) of this section if the employee is elected or named to the board of directors or audit committee of the foreign private issuer pursuant to the issuer's governing law or

documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements.

(D) An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:

- (1) The member is an affiliate of the foreign private issuer or a representative of such an affiliate;
- (2) The member has only observer status on, and is not a voting member or the chair of, the audit committee; and
- (3) Neither the member nor the affiliate is an executive officer of the foreign private issuer.

(E) An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:

- (1) The member is a representative or designee of a foreign government or foreign governmental entity that is an affiliate of the foreign private issuer; and
- (2) The member is not an executive officer of the foreign private issuer.

(F) In addition to paragraphs (b)(1)(iv)(A) through (E) of this section, if the Commission exempts from the requirements of paragraphs (b)(1)(ii) or (b)(1)(iii) of Commission Rule 10A-3 under the Act a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances, such relationship shall also be exempt from the requirements of paragraphs (b)(1)(ii) or (b)(1)(iii) of this Rule 849.

(2) **Responsibilities relating to registered public accounting firms.** The audit committee of each listed issuer, in its capacity as a committee of the board of directors, must be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm must report directly to the audit committee.

(3) **Complaints.** Each audit committee must establish procedures for:

- (i) The receipt, retention, and treatment of complaints received by the listed issuer regarding accounting, internal accounting controls, or auditing matters; and

- (ii) The confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters; and
  - (iii) If the company is an investment company, the confidential, anonymous submission of concerns regarding questionable accounting or auditing matters by employees of the investment adviser, administrator, principal underwriter, or any other provider of accounting related services for the investment company, as well as employees of the investment company.
- (4) **Authority to engage advisers.** Each audit committee must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.
- (5) **Funding.** Each listed issuer must provide for appropriate funding, as determined by the audit committee, in its capacity as a committee of the board of directors, for payment of:
- (i) Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer;
  - (ii) Compensation to any advisers employed by the audit committee under paragraph (b)(4) of this section; and
  - (iii) Ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

(c) **General exemptions.**

- (1) At any time when an issuer has a class of common equity or similar securities that is listed on a national securities exchange or national securities association subject to the requirements of listing standards which comply with the requirements of Commission Rule 10A-3 under the Act, the listing of other classes of securities on the Exchange is not subject to the requirements of this section.
- (2) At any time when an issuer has a class of common equity securities (or similar securities) that is listed on a national securities exchange or national securities association subject to the requirements of listing standards which comply with the requirements of Commission Rule 10A-3 under the Act, the listing on the Exchange of classes of securities of a direct or indirect consolidated subsidiary or an at least 50% beneficially owned subsidiary of the issuer (except classes of equity securities, other than non-convertible, non-participating preferred securities, of such subsidiary) is not subject to the requirements of this section.
- (3) The listing of securities of a foreign private issuer is not subject to the requirements of paragraphs (b)(1) through (b)(5) of this section if the foreign private issuer meets the following requirements:

- (i) The foreign private issuer has a board of auditors (or similar body), or has statutory auditors, established and selected pursuant to home country legal or listing provisions expressly requiring or permitting such a board or similar body;
  - (ii) The board or body, or statutory auditors is required under home country legal or listing requirements to be either:
    - (A) Separate from the board of directors; or
    - (B) Composed of one or more members of the board of directors and one or more members that are not also members of the board of directors;
  - (iii) The board or body, or statutory auditors, are not elected by management of such issuer and no executive officer of the foreign private issuer is a member of such board or body, or statutory auditors;
  - (iv) Home country legal or listing provisions set forth or provide for standards for the independence of such board or body, or statutory auditors, from the foreign private issuer or the management of such issuer;
  - (v) Such board or body, or statutory auditors, in accordance with any applicable home country legal or listing requirements or the issuer's governing documents, are responsible, to the extent permitted by law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by law, the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer; and
  - (vi) The audit committee requirements of paragraphs (b)(3), (b)(4) and (b)(5) of this section apply to such board or body, or statutory auditors, to the extent permitted by law.
- (4) The listing of a security futures product cleared by a clearing agency that is registered pursuant to Section 17A of the Act or that is exempt from the registration requirements of Section 17A pursuant to paragraph (b)(7)(A) of such section is not subject to the requirements of this section.
- (5) The listing of a standardized option, as defined in Commission Rule 9b-1(a)(4) under the Act, issued by a clearing agency that is registered pursuant to Section 17A of the Act is not subject to the requirements of this section.
- (6) The listing of securities of the following listed issuers are not subject to the requirements of this section:
- (i) Asset-Backed Issuers (as defined in Commission Rules 13a-14(g) and 15d-14(g) under the Act);



- (ii) Unit investment trusts (as defined in 15 U.S.C. 80a-4(2)); and
  - (iii) Foreign governments (as defined in Commission Rule 3b-4(a) under the Act).
- (7) The listing of securities of a listed issuer is not subject to the requirements of this section if:
- (i) The listed issuer, as reflected in the applicable listing application, is organized as a trust or other unincorporated association that does not have a board of directors or persons acting in a similar capacity; and
  - (ii) The activities of the listed issuer that is described in paragraph (c)(7)(i) of this section are limited to passively owning or holding (as well as administering and distributing amounts in respect of) securities, rights, collateral or other assets on behalf of or for the benefit of the holders of the listed securities.

(d) **[Reserved]**.

(e) **Definitions.** Unless the context otherwise requires, all terms used in this section have the same meaning as in the Act. In addition, unless the context otherwise requires, the following definitions apply for purposes of this section:

- (1) (i) The term affiliate of, or a person affiliated with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
- (ii)(A) A person will be deemed not to be in control of a specified person for purposes of this section if the person:
  - (1) Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
  - (2) Is not an executive officer of the specified person.
- (B) Paragraph (e)(1)(ii)(A) of this section only creates a safe harbor position that a person does not control a specified person. The existence of the safe harbor does not create a presumption in any way that a person exceeding the ownership requirement in paragraph (e)(1)(ii)(A)(1) of this section controls or is otherwise an affiliate of a specified person.
- (iii) The following will be deemed to be affiliates:
  - (A) An executive officer of an affiliate;
  - (B) A director who also is an employee of an affiliate;
  - (C) A general partner of an affiliate; and

- (D) A managing member of an affiliate.
- (iv) For purposes of paragraph (e)(1)(i) of this section, dual holding companies will not be deemed to be affiliates of or persons affiliated with each other by virtue of their dual holding company arrangements with each other, including where directors of one dual holding company are also directors of the other dual holding company, or where directors of one or both dual holding companies are also directors of the businesses jointly controlled, directly or indirectly, by the dual holding companies (and, in each case, receive only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of the dual holding companies or any entity that is jointly controlled, directly or indirectly, by the dual holding companies).
- (2) In the case of foreign private issuers with a two-tier board system, the term board of directors means the supervisory or non-management board.
- (3) In the case of a listed issuer that is a limited partnership or limited liability company where such entity does not have a board of directors or equivalent body, the term board of directors means the board of directors of the managing general partner, managing member or equivalent body.
- (4) The term control (including the terms controlling, controlled by and under common control with) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
- (5) The term dual holding companies means two foreign private issuers that:
- (i) Are organized in different national jurisdictions;
  - (ii) Collectively own and supervise the management of one or more businesses which are conducted as a single economic enterprise; and
  - (iii) Do not conduct any business other than collectively owning and supervising such businesses and activities reasonably incidental thereto.
- (6) The term executive officer has the meaning set forth in Commission Rule 3b-7.
- (7) The term foreign private issuer has the meaning set forth in Commission Rule 3b-4(c).
- (8) The term indirect acceptance by a member of an audit committee of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar

positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary of the issuer.

- (9) The terms listed and listing refer to securities listed on a national securities exchange or listed in an automated inter-dealer quotation system of a national securities association or to issuers of such securities.

(f) **Opportunity to cure defects.** A listed issuer shall have the opportunity provided for in Rule 811 to cure any defects that would be the basis for delisting under paragraph (a) of this section, before the imposition of such delisting. Additionally, if a member of an audit committee ceases to be independent in accordance with the requirements of this section for reasons outside the member's reasonable control, that person, with notice by the issuer to the Exchange, may remain an audit committee member of the listed issuer until the earlier of the next annual shareholders meeting of the listed issuer or one year from the occurrence of the event that caused the member to be no longer independent.

(g) **Notification of noncompliance.** Listed issuers must notify the Exchange promptly after an executive officer of the listed issuer becomes aware of any material noncompliance by the listed issuer with the requirements of this section.

(h) **Audit committee charter.** The board of directors must adopt and approve a formal written charter for the audit committee. The audit committee must review and reassess the adequacy of the formal written charter on an annual basis. The charter must specify the following:

- (i) The scope of the audit committee's responsibilities and how it carries out those responsibilities, including structure, processes, and membership requirements;
- (ii) That the outside auditor is ultimately accountable to the board of directors and the audit committee of the company, that the audit committee and board of directors have the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the outside auditor (or to nominate the outside auditor to be proposed for shareholder approval in any proxy statement), and that the audit committee is vested with all responsibilities and authority required by Rule 10A-3 under the Securities Exchange Act of 1934; and
- (iii) That the audit committee is responsible for ensuring that the outside auditor submits on a periodic basis to the audit committee a formal written statement delineating all relationships between the auditor and the company and that the audit committee is responsible for actively engaging in a dialogue with the outside auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditor and for recommending that the board of directors take appropriate action in response to the outside auditors' report to satisfy itself of the outside auditors' independence.

(i) **Expertise Requirement of audit committee members.**

- (i) Each member of the audit committee must be financially literate, as such qualification is interpreted by the company's board of directors in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the audit committee; and
- (ii) At least one member of the audit committee must have accounting or related financial management expertise, as the board of directors interprets such qualification in its business judgment.

(j) **Written Affirmation.** As part of the initial listing process, and with respect to any subsequent changes to the composition of the audit committee, and otherwise approximately once each year, each company should provide the Exchange written confirmation regarding:

- (i) any determination that the company's board of directors has made regarding the independence of directors pursuant to any of the subparagraphs above;
- (ii) the financial literacy of the audit committee member;
- (iii) the determination that at least one of the audit committee members has accounting or related financial management expertise; and
- (iv) the annual review and reassessment of the adequacy of the audit committee charter.

(k) **Related Party Transactions.** Each issuer shall conduct an appropriate review of all related party transactions on an ongoing basis and all such transactions must be approved by the company's audit committee or another independent body of the board of directors. For purposes of this Rule, the term "related party transaction" shall refer to transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

•• **Commentary:** -----

1. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v) and (c)(3)(vi) of this section do not conflict with, and do not affect the application of, any requirement or ability under a listed issuer's governing law or documents or other home country legal or listing provisions that requires or permits shareholders to ultimately vote on, approve or ratify such requirements. The requirements instead relate to the assignment of responsibility as between the audit committee and management. In such an instance, however, if the listed issuer provides a recommendation or nomination regarding such responsibilities to shareholders, the audit committee of the listed issuer, or body performing similar functions, must be responsible for making the recommendation or nomination.

2. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v), (c)(3)(vi) and Commentary 1 of this section do not conflict with any legal or listing requirement in a listed issuer's home jurisdiction that prohibits

the full board of directors from delegating such responsibilities to the listed issuer's audit committee or limits the degree of such delegation. In that case, the audit committee, or body performing similar functions, must be granted such responsibilities, which can include advisory powers, with respect to such matters to the extent permitted by law, including submitting nominations or recommendations to the full board.

3. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v) and (c)(3)(vi) of this section do not conflict with any legal or listing requirement in a listed issuer's home jurisdiction that vests such responsibilities with a government entity or tribunal. In that case, the audit committee, or body performing similar functions, must be granted such responsibilities, which can include advisory powers, with respect to such matters to the extent permitted by law.

4. For purposes of this section, the determination of a person's beneficial ownership must be made in accordance with Rule 13d-3 under the Act.

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**Rule 850. Shareholder Approval Policy**

Each issuer shall require shareholder approval prior to the issuance of designated securities under subparagraph (a), (b), or (c) below:

- (a) when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended pursuant to which options or stock may be acquired by officers, directors, employees, or consultants, except for:
  - (i) warrants or rights issued generally to all security holders of the company or stock purchase plans available on equal terms to all security holders of the company (such as a dividend reinvestment plan); or
  - (ii) tax qualified, non-discriminatory employee benefit plans (e.g., plans that meet the requirements of Section 401(a) or 423 of the Internal Revenue Code) or parallel nonqualified plans, provided such plans are approved by the issuer's independent compensation committee or a majority of the issuer's independent directors; or plans that merely provide a convenient way to purchase shares on the open market or from the issuer at fair market value; or
  - (iii) plans or arrangements relating to an acquisition or merger as permitted under the Commentary to this Rule; or
  - (iv) issuances to a person not previously an employee or director of the company, or following a bonafide period of non-employment, as an inducement material to the individual's entering into employment with the company, provided such issuances are

approved by either the issuer's independent compensation committee or a majority of the issuer's independent directors. Promptly following an issuance of any employment inducement grant in reliance on this exception, a company must disclose in a press release the material terms of the grant, including the recipient(s) of the grant and the number of the shares involved.

Issuers shall notify the Exchange no later than 15 calendar days prior to establishing or materially amending a stock option plan, purchase plan or other equity compensation arrangement pursuant to which stock may be acquired by officers, directors, employees, or consultants without shareholder approval.

- (b) Actions resulting in a change in control of the issuer.
- (c) The acquisition, direct or indirect, of a business, a company, tangible or intangible assets or property or securities representing any such interests:
  - (i) From a director, officer or substantial security holder of the company (including its subsidiaries and affiliates) or from any company or party in which one of such persons has a direct or indirect interest; or
  - (ii) Where the present or potential issuance of common stock or securities convertible into common stock could result in an increase in outstanding common shares of 20% or more.

••• *Commentary:* -----

Employee ownership of company stock can be an effective tool to align employee interests with those of other shareholders. Stock option plans or other equity compensation arrangements can also assist in the recruitment and retention of employees, which is especially critical to young, growing companies, or companies with insufficient cash resources to attract and retain highly qualified employees. However, these plans can potentially dilute shareholder interests. As such, Rule 850(a) ensures that shareholders have a voice in these situations, given this potential for dilution.

Rule 850(a) requires shareholder approval when a plan or other equity compensation arrangement is established or materially amended. For these purposes, a material amendment would include, but not be limited to, the following:

- (1) any material increase in the number of shares to be issued under the plan (other than to reflect a reorganization, stock split, merger, spinoff or similar transaction);
- (2) any material increase in benefits to participants, including any material change to: (i) permit a repricing (or decrease in exercise price) of outstanding options, (ii) reduce the

price at which shares or options to purchase shares may be offered, or (iii) extend the duration of a plan;

- (3) any material expansion of the class of participants eligible to participate in the plan; and
- (4) any expansion in the types of options or awards provided under the plan.

While general authority to amend a plan would not obviate the need for shareholder approval, if a plan permits a specific action without further shareholder approval, then no such approval would generally be required. However, if a plan contains a formula for automatic increases in the shares available (sometimes called an "evergreen formula"), or for automatic grants pursuant to a dollar-based formula (such as, annual grants based on a certain dollar value, or matching contributions based upon the amount of compensation the participant elects to defer), such plans cannot have a term in excess of ten years unless shareholder approval is obtained every ten years. However, plans that do not contain a formula and do not impose a limit on the number of shares available for grant would require shareholder approval of each grant under the plan. A requirement that grants be made out of treasury shares or repurchased shares will not alleviate these additional shareholder approval requirements.

As a general matter, when preparing plans and presenting them for shareholder approval, issuers should strive to make plan terms easy to understand. In that regard, it is recommended that plans meant to permit repricing use explicit terminology to make this clear.

Rule 850(a) provides an exception to the requirement for shareholder approval for warrants or rights offered generally to all shareholders. In addition, an exception is provided for tax qualified, non-discriminatory employee benefit plans as well as parallel nonqualified plans as these plans are regulated under the Internal Revenue Code and Treasury Department regulations. An equity compensation plan that provides non-U.S. employees with substantially the same benefits as a comparable tax qualified, non-discriminatory employee benefit plan that the issuer provides to its U.S. employees, but for features necessary to comply with applicable foreign tax law, are also exempt from shareholder approval under this section.

Further, there is an exception for inducement grants to new employees because in these cases a company has an arm's length relationship with the new employees. Inducement grants for these purposes include grants of options or stock to new employees in connection with a merger or acquisition. The Rule requires that such

issuances must be approved by the issuer's independent compensation committee or a majority of the issuer's independent directors. The Rule further requires that promptly following an issuance of any employment inducement grant in reliance on this exception, a company must disclose in a press release the material terms of the grant, including the recipient(s) of the grant and the number of shares involved.

In addition, plans or arrangements involving a merger or acquisition do not require shareholder approval in two situations. First, shareholder approval will not be required to convert, replace or adjust outstanding options or other equity compensation awards to reflect the transaction. Second, shares available under certain plans acquired in acquisitions and mergers may be used for certain post-transaction grants without further shareholder approval. This exception applies to situations where the party which is not a listed company following the transaction has shares available for grant under pre-existing plans that were previously approved by shareholders and meet the requirements of this Rule 850(a). These shares may be used for post-transaction grants of options and other equity awards by the listed company (after appropriate adjustment of the number of shares to reflect the transaction), either under the pre-existing plan or arrangement or another plan or arrangement, without further shareholder approval, provided: (1) the time during which those shares are available for grants is not extended beyond the period when they would have been available under the pre-existing plan, absent the transaction, and (2) such options and other awards are not granted to individuals who were employed by the granting company or its subsidiaries at the time the merger or acquisition was consummated. The Exchange would view a plan or arrangement adopted in contemplation of the merger or acquisition transaction as not pre-existing for purposes of this exception. This exception is appropriate because it will not result in any increase in the aggregate potential dilution of the combined enterprise. In this regard, any additional shares available for issuance under a plan or arrangement acquired in a connection with a merger or acquisition would be counted by the Exchange in determining whether the transaction involved the issuance of 20% or more of the company's outstanding common stock, thus triggering the shareholder approval requirements under Rule 850(c).

Inducement grants, tax qualified non-discriminatory benefit plans, and parallel nonqualified plans are subject to approval by either the issuer's independent compensation committee, or a majority of the issuer's independent directors. It should also be noted that a company



would not be permitted to use repurchased shares to fund option plans or grants without prior shareholder approval.

For purposes of Rule 850(a), including this Commentary, the term "parallel nonqualified plan" means a plan that is a "pension plan" within the meaning of the Employee Retirement Income Security Act ("ERISA"), 29 U.S.C. § 1002 (1999), that is designed to work in parallel with a plan intended to be qualified under Internal Revenue Code Section 401(a), to provide benefits that exceed the limits set forth in Internal Revenue Code Section 402(g) (the section that limits an employee's annual pre-tax contributions to a 401(k) plan), Internal Revenue Code Section 401(a)(17) (the section that limits the amount of an employee's compensation that can be taken into account for plan purposes) and/or Internal Revenue Code Section 415 (the section that limits the contributions and benefits under qualified plans) and/or any successor or similar limitations that may thereafter be enacted. However, a plan will not be considered a parallel nonqualified plan unless: (i) it covers all or substantially all employees of an employer who are participants in the related qualified plan whose annual compensation is in excess of the limit of Code Section 401(a)(17) (or any successor or similar limitation that may hereafter be enacted); (ii) its terms are substantially the same as the qualified plan that it parallels except for the elimination of the limitations described in the preceding sentence; and, (iii) no participant receives employer equity contributions under the plan in excess of 25% of the participant's cash compensation.

Rule 850(a) and this Commentary will become effective upon Securities and Exchange Commission approval; however, existing plans will be grandfathered. Any material modification to plans in place or adopted after the effective date will require shareholder approval.

The Exchange will preclude its member organizations from giving a proxy to vote on equity-compensation plans unless the beneficial owner of the shares has given voting instructions. This is codified in Exchange Rule 862. Amended Rule 862 will be effective for any meeting of shareholders that occurs on or after the 90th day following the effective date of the Securities and Exchange Commission order approving the rule change.

### **Rule 851. Independent Directors**

Each issuer listed pursuant to Rules 803, 804 or 805 shall maintain a minimum of two independent directors on its board of directors. For purposes of this section, "independent director" shall mean a person other than an officer or employee of the company or its

subsidiaries or any other individual having a relationship which, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

**Rule 852. Limited Partnerships**

No security issued in a limited partnership rollup transaction (as defined by Section 14(h) of the Exchange Act), shall be eligible for listing unless (a) the rollup transaction was conducted in accordance with procedures designed to protect the rights of limited partners as provided in Section 6(b)(9) of the Exchange Act, as it may from time to time be amended and (b) a broker-dealer which is a member of a national securities association subject to Section 15A(b)(12) of the Exchange Act participates in the rollup transaction. The issuer shall further provide the exchange with an opinion of counsel stating that such broker-dealers' participation in the rollup transaction was conducted in compliance with the rules of a national securities association designed to protect the rights of limited partners, as specified in the Limited Partnership Rollup Reform Act of 1993.

In addition to any other applicable requirements, each limited partnership listed on the Exchange shall have a corporate general partner or co-general partner which must satisfy the audit committee and independent director requirements of Rules 849 and 851.

••• *Commentary:* -----

.01 The only currently existing national securities association subject to Section 15A(b)(12) of the Exchange Act is FINRA. On the date of adoption of this Commentary, its rules designed to protect the rights of limited partners, pursuant to the Limited Partnership Rollup Reform Act of 1993, are specified in Article III, Section 34 of the Rules of Fair Practice of FINRA.

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**Rule 853. Depository Eligibility**

(a) Before any issue of securities of a domestic issuer (not including American Depository Receipts for securities of a foreign issuer) is listed on the Exchange on or after the effective date of the Rule, the Exchange must have received a representation from the issuer that a CUSIP number identifying the securities has been included in the file of eligible issues maintained by a securities depository registered as a Clearing Agency under Section 17A of the Securities Exchange Act of 1934 ("securities depository" or "securities depositories"), except that this paragraph shall not apply to a security if the terms of the security do not and cannot be reasonably modified to meet the criteria for depository eligibility at all securities depositories.

(b) A security depository's inclusion of the CUSIP number identifying a security in its file of eligible issues does not render a security "depository eligible" within the meaning of Rule 279 until:

- (1) In the case of any new issue distributed by an underwriting syndicate on or after the date a securities depository system for monitoring repurchases of distributed shares by the underwriting syndicate is available, the commencement of trading in such security on the Exchange; or
- (2) In the case of any new issue distributed by an underwriting syndicate prior to the date a securities depository system for monitoring repurchases of distributed shares by the underwriting syndicate available where the managing underwriter elects not to deposit the securities on the distribution date, such date as is the subject of a notification submitted by the managing underwriter to the securities depository but in no event more than three months after the commencement of trading in such security on the Exchange.

**Rule 860. Restriction**

No member organization shall give a proxy to vote stock registered in its name, except as required or permitted under the provisions of Rule 862, unless the firm is the beneficial owner of such stock.

**Rule 861. Voting Instructions**

Whenever a person soliciting proxies shall furnish a member organization:

- (1) copies of all soliciting material which such person is sending to registered holders, and
- (2) satisfactory assurance that he will reimburse such member organization for all out-of-pocket expenses, including reasonable clerical expenses, if any, incurred by such member organization, in obtaining instructions from the beneficial owners of stock.

Such organization shall transmit to each beneficial owner of stock the material furnished together with a request for voting instructions and also a statement to the effect that, if such instructions are not received by the tenth day before the meeting the proxy may be given at discretion by the owner of record of the stock. However, when the proxy soliciting material is transmitted to the beneficial owner of the stock twenty-five days or more before the meeting, the statement accompanying such material shall be to the effect that the proxy may be given fifteen days before the meeting at the discretion of the owner of record of the stock. This Rule shall not apply to beneficial owners outside the United States.

**Rule 862. Proxies at Direction of Owner**

A member organization shall give a proxy for stock registered in its name, at the direction of the beneficial owner. If the stock is not in the control or possession of the member organization, satisfactory proof of the beneficial ownership as of the record date may be required.

Member organization holdings as executor, etc.

A member organization may give a proxy to vote any stock registered in its name if the member organization holds such stock as executor, administrator, guardian, trustee, or in a similar representative or fiduciary capacity with authority to vote.

A member organization which has in its possession or control stock registered in the name of another member organization shall

(1) forward to such other member organization any voting instructions received from the beneficial owner, or

(2) if the proxy-soliciting material has been transmitted to the beneficial owner of the stock in accordance with Rule 861 and no instructions have been received by the date specified in the statement accompanying such material, notify such other member organization of such fact in order that such organization may give the proxy as provided below.

(a) When a member organization may vote without customer instructions—A member organization may give a proxy to vote stock provided that:

- (1) it has transmitted proxy-soliciting material to the beneficial owner of stock
- (2) it has not received voting instructions from the beneficial owner by the date specified in the statement accompanying such material; and
- (3) provided such action is adequately disclosed to stockholders and does not include authorization for a merger, consolidation or any matter which may substantially affect the rights or privileges of such stock.

(b) When a member organization may not vote without customer instructions—A member organization may not give or authorize a proxy to vote without instructions from beneficial owners when the matter to be voted upon:

- (1) is submitted to stockholders by means of a proxy statement comparable to that specified in Schedule 14-A of the SEC;
- (2) is the subject of a counter-solicitation, or is part of a proposal made by a stockholder which is being opposed by management;
- (3) relates to a merger or consolidation (except when the company's proposal is to merge with its own wholly owned subsidiary, provided shareholders dissenting thereto do not have rights of appraisal and there is no change in the state of incorporation);
- (4) involves right of appraisal;
- (5) authorizes mortgaging of property;
- (6) authorizes or creates indebtedness or increases the authorized amount of indebtedness;
- (7) authorizes or creates a preferred stock or increases the authorized amount of an existing preferred stock;

- (8) alters the terms or conditions of existing stock or indebtedness;
- (9) involves a waiver or modification of preemptive rights;
- (10) changes existing quorum requirements with respect to stockholder meetings;
- (11) alters voting provisions or the proportionate voting power of a stock, or the number of its votes per share (except where cumulative voting provisions govern the number of votes per share for election of directors and the company proposal involves a change in the number of its directors by not more than 10% or not more than one);
- (12) authorizes the implementation of any equity compensation plan, or any material revision to the terms of any existing equity compensation plan (whether or not shareholder approval of such plan is required by Rule 850);

•••*Commentary*:-----

**.01** A member organization may not give or authorize a proxy to vote without instructions on a matter relating to executive compensation, even if such matter would otherwise qualify for an exception from the requirements of Item 12, Item 13 or any other Item under this Rule 862. See Item 21.

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- (13) authorizes:
  - (i) a new profit-sharing or special remuneration plan, or a new retirement plan, the annual cost of which will amount to more than 10% of average annual income before taxes for the preceding five years, or
  - (ii) the amendment of an existing plan which would bring its costs above 10% of such average annual income before taxes.

Exception may be made in cases of:

- (i) retirement plans based on agreement or negotiations with labor unions (or which have been or are to be approved by such unions) and
- (ii) any related retirement plan for benefit of non-union employees having terms substantially equivalent to the terms of such union-negotiated plan which is submitted for action of stockholders concurrently with such union-negotiated plan;

•••*Commentary*:-----

**.02** A member organization may not give or authorize a proxy to vote without instructions on a matter relating to executive compensation, even if such matter would otherwise qualify for an

exception from the requirements of Item 12, Item 13 or any other Item under this Rule 862. See Item 21.

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- (14) changes the purposes or powers of a company to an extent which would permit it to change to a materially different line of business and it is the company's stated intention to make such a change;
- (15) authorizes the acquisition of property, assets or a company, where the consideration to be given has a fair value approximating 20% or more of the market value of the previously outstanding shares;
- (16) authorizes the sale or other disposition of assets or earning power approximating 20% or more of those existing prior to the transaction;
- (17) authorizes a transaction not in the ordinary course of business in which an officer, director or substantial security holder has a direct or indirect interest;
- (18) reduces earned surplus by 51% or more, or reduces earned surplus to an amount less than the aggregate of three years' common stock dividends computed at the current dividend rate.
- (19) is the election of directors, provided, however, that this prohibition shall not apply in the case of a company registered under the Investment Company Act of 1940;
- (20) materially amends an investment advisory contract with an investment company. A material amendment to an investment advisory contract would include any proposal to obtain shareholder approval of an investment company's investment advisory contract with a new investment adviser, which approval is required by the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules thereunder. Such approval will be deemed to be a "matter which may affect substantially the rights or privileges of such stock" for purposes of this Rule so that a member organization may not give or authorize a proxy to vote shares registered in its name absent instruction from the beneficial holder of the shares. As a result, for example, a member organization may not give or authorize a proxy to vote shares registered in its name, absent instruction from the beneficial holder of the shares, on any proposal to obtain shareholder approval required by the 1940 Act of an investment advisory contract between an investment company and a new investment adviser due to an assignment of the investment company's investment advisory contract, including an assignment caused by a change in control of the investment adviser that is party to the assigned contract; or
- (21) is in connection with a vote on executive compensation matters, or any other significant matter, as determined by the Commission by rule.

•••*Commentary*:-----

**.03** A matter relating to executive compensation would include, among other things, the items referred to in Section 14A of the Exchange Act (added by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act), including (i) an advisory vote to approve the compensation of executives, (ii) a vote on whether to hold such an advisory vote every one, two or three years, and (iii) an advisory vote to approve any type of compensation (whether present, deferred, or contingent) that is based on or otherwise relates to an acquisition, merger, consolidation, sale, or other disposition of all or substantially all of the assets of an issuer and the aggregate total of all such compensation that may (and the conditions upon which it may) be paid or become payable to or on behalf of an executive officer. In addition, a member organization may not give or authorize a proxy to vote without instructions on a matter relating to executive compensation, even if such matter would otherwise qualify for an exception from the requirements of Item 12, Item 13 or any other Item under this Rule 862. Any vote on these or similar executive compensation-related matters is subject to the requirements of Rule 862.

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- (c) Discretionary and non-discretionary proposals in one proxy form—A proxy form may contain proposals, some of which may be acted upon at the discretion of the member organization in the absence of instruction, and others which may be voted only in accordance with the directions of the beneficial owner. This should be indicated in the letter of transmittal. In such cases, the member organization may vote the proxy in the absence of instructions if it physically crosses out those portions where it does not have discretion.
- (d) Cancellation of discretionary proxy where counter-solicitation develops—Where a discretionary proxy has been given in good faith under the rules and counter-solicitation develops at a later date, thereby creating a "contest", the question as to whether or not the discretionary proxy should then be canceled is a matter which each member organization must decide for itself. After a contest has developed, no further proxies should be given except at the direction of beneficial owners.
- (e) Subsequent proxy—Where a member organization gives a subsequent proxy, it should clearly indicate whether the proxy is in addition to, in substitution for, or in revocation of, any prior proxy.
- (f) Signing and dating proxy—All proxies should be dated and should show the number of shares voted. Since manual signatures are sometimes illegible, a member organization should also either type or rubber-stamp its name on such proxy.
- (g) Proxy records—Records covering the solicitation of proxies shall show the following:
  - (1) the date of receipt of the proxy material from the issuer or other person soliciting the proxies;

- (2) names of customers to whom the material is sent together with date of mailing;
- (3) all voting instructions showing whether verbal or written; and
- (4) a summary of all proxies voted by the member organization clearly setting forth total shares voted for or against, or not voted, for each proposal to be acted upon at the meeting.

Verbal voting instructions may be accepted provided a record is kept of the instructions of the beneficial owner and the instructions are retained by the member organization. The record shall also indicate the date of the receipt of the instructions and the name of the recipient.

- (h) Retention of records—All proxy solicitation records, originals of all communications received and copies of all communications sent relating to such solicitation, shall be retained for a period of not less than three years, the first two years in an easily accessible place.

**Rule 863. Proxy to Show Number of Shares**

In all cases in which a proxy is given by a member organization the proxy shall state the actual number of shares of stock for which the proxy is given.

**Rule 864. Transfer to Facilitate Solicitation**

A member organization, when so requested by the Exchange shall transfer certificates of a listed stock held either for its own account or for the account of others, if registered in the name of a previous holder of record, into its own name, prior to the taking of a record of stockholders, to facilitate the convenient solicitation of proxies.

The Exchange will make such request at the instance of the issuer or of persons owning in the aggregate at least ten per cent of such stock, provided, if the Exchange so requires, the issuer or persons making such request agree to indemnify member organizations against transfer taxes, and the Exchange may make such a request whenever it deems it advisable.

**Rule 865. Rule Applicable to Individual Members and Nominees**

The provisions of Rules 860 to 864, inclusive, shall apply also to any nominees of member organizations. They shall apply also to voting in person.

**Rule 866. Transmission of Interim Reports and Other Material**

A member organization, when so requested by a company, and upon being furnished with:

- (1) copies of interim reports of earnings or other material being sent to stockholders, and
- (2) satisfactory assurance that it will be reimbursed by such company for all out-of-pocket expenses, including reasonable clerical expenses, shall transmit such reports or material to each beneficial owner of stock of such company held by such member organization and registered in a name other than the name of the beneficial owner.



This Rule shall not apply to beneficial owners outside the United States.

## **Rule 867. Corporate Governance**

### ***General Application***

Companies listed on the Exchange must comply with certain standards regarding corporate governance as codified in this Rule 867. Certain provisions of Rule 867 are applicable to some listed companies but not to others.

### **Equity Listings**

Section 867 applies in full to all companies listing common equity securities, with the following exceptions:

#### *Controlled Companies*

A company of which more than 50% of the voting power is held by an individual, a group or another company need not comply with the requirements of Rules 867.01, .04 or .05. A controlled company that chooses to take advantage of any or all of these exemptions must disclose that choice, that it is a controlled company and the basis for the determination in its annual proxy statement or, if the company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC. Controlled companies must comply with the remaining provisions of Rule 867.

#### *Limited Partnerships and Companies in Bankruptcy*

Due to their unique attributes, limited partnerships and companies in bankruptcy proceedings need not comply with the requirements of Rules 867.01, .04 or .05. However, all limited partnerships (at the general partner level) and companies in bankruptcy proceedings must comply with the remaining provisions of Rule 867.

#### *Closed-End Funds and Open-End Funds*

The Exchange considers many of the significantly expanded standards and requirements provided for in Rule 867 to be unnecessary for closed-end and open-end management investment companies that are registered under the Investment Company Act of 1940, given the pervasive federal regulation applicable to them. However, registered closed-end funds must comply with the requirements of Rules 867.06, .07(a) and (c), .12 and .15. Note, however, that in view of the common practice to utilize the same directors for boards in the same fund complex, closed-end funds will not be required to comply with the disclosure requirement in the second paragraph of the Commentary to Rule 867.07(a), which calls for disclosure of a board's determination with respect to simultaneous service on more than three public company audit committees. However, the other provisions of that paragraph will apply.

Business development companies, which are a type of closed-end management investment company defined in Section 2(a)(48) of the Investment Company Act of 1940 that are not registered under that Act, are required to comply with all of the provisions of Rule 867 applicable to domestic issuers other than Rule 867.02 and .07(b). For purposes of Rules 867.01, .03, .04, .05 and .09, a director of a business development company shall be considered to be independent if he or she is not an "interested person" of the company, as defined in Section 2(a)(19) of the Investment Company Act of 1940.

As required by Rule 10A-3 under the Exchange Act, open-end funds (which can be listed as Index Fund Shares) are required to comply with the requirements of Rules 867.06 and .12(b).

Rule 10A-3(b)(ii) under the Exchange Act requires that each audit committee must establish procedures for the confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters. In view of the external management structure often employed by closed-end and open-end funds, the Exchange also requires the audit committees of such companies to establish such procedures for the confidential, anonymous submission by employees of the investment adviser, administrator, principal underwriter, or any other provider of accounting related services for the management company, as well as employees of the management company. This responsibility must be addressed in the audit committee charter.

#### *Other Entities*

Except as otherwise required by Rule 10A-3 under the Exchange Act (for example, with respect to open-end funds), Rules 867 does not apply to passive business organizations in the form of trusts (such as royalty trusts) or to derivatives and special purpose securities. To the extent that Rule 10A-3 applies to a passive business organization, listed derivative or special purpose security, such entities are required to comply with Rules 867.06 and .12(b).

#### *Foreign Private Issuers*

Listed companies that are foreign private issuers (as such term is defined in Rule 3b-4 under the Exchange Act) are permitted to follow home country practice in lieu of the provisions of this Rule 867, except that such companies are required to comply with the requirements of Rule 867.06, .11 and .12(b).

### **Preferred and Debt Listings**

Rule 867 does not generally apply to companies listing only preferred or debt securities on the Exchange. To the extent required by Rule 10A-3 under the Exchange Act, all companies listing only preferred or debt securities on the Exchange are required to comply with the requirements of Rules 867.06 and .12(b).

### **Effective Dates/Transition Periods**

Listed companies will have until the earlier of their first annual meeting after July 15, 2004, or October 31, 2004, to comply with the new standards contained in Rule 867, although if a company with a classified board would be required (other than by virtue of a requirement under Rule 867.06) to change a director who would not normally stand for election in such annual meeting, the company may continue such director in the office until the second annual meeting after such date, but no later than December 31, 2005. In addition, foreign private issuers and small business issuers will have until July 31, 2005, to comply with Rule 867. As a general matter, the existing requirements provided for in Rule 849 continue to apply to listed companies pending the transition to the new rules.

Companies listing in conjunction with their initial public offering will be permitted to phase in their independent nomination and compensation committees on generally the same schedule as is permitted pursuant to Rule 10A-3 under the Exchange Act for audit committees, that is, one independent member at the time of listing, a majority of independent members within 90 days of listing and fully independent committees within one year. Such companies will be required to meet the majority independent board requirement within 12 months of listing. For purposes of Rule 867 other than sections 867.06 and .12(b), a company will be considered to be listing in conjunction with an initial public offering if, immediately prior to listing, it does not have a class of common stock registered under the Exchange Act. The Exchange will also permit companies that are emerging from bankruptcy or have ceased to be controlled companies within the meaning of Rule 867 to phase in independent nomination and compensation committees and majority independent boards on the same schedule as companies listing in conjunction with an initial public offering. However, for purposes of Rules 867.06 and .12(b), a company will be considered to be listing in conjunction with an initial public offering only if it meets the conditions of Rule 10A-3(b)(1)(iv)(A) under the Exchange Act, namely, that the company was not, immediately prior to the effective date of a registration statement, required to file reports with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act.

Companies listing upon transfer from another market have 12 months from the date of transfer in which to comply with any requirement to the extent the market on which they were listed did not have the same requirement. To the extent the other market has a substantially similar requirement but also had a transition period from the effective date of that market's rule, which period had not yet expired, the company will have the same transition period as would have been available to it on the other market. This transition period for companies transferring from another market will not apply to the requirements of Rule 867.06 unless a transition period is available pursuant to Rule 10A-3 under the Exchange Act.

### **References to Form 10-K**

There are provisions in this Rule 867 that call for disclosure in a company's Form 10-K under certain circumstances. If a company subject to such a provision is not a company required to file a Form 10-K, then the provision shall be interpreted to mean the annual periodic disclosure form that the company does file with the SEC. For example, for a closed-end fund, the appropriate form would be the annual Form N-CSR. If a company is not required to file either an annual proxy statement or an annual periodic report with the SEC, the disclosure shall be made in the annual report required under Rule 837, Annual Reports.

## 1. Listed companies must have a majority of independent directors.

### •• *Commentary* -----

Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.

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## 2. In order to tighten the definition of "independent director" for purposes of these standards:

(a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must disclose these determinations.

### •• *Commentary* -----

It is not possible to anticipate, or explicitly to provide for, all circumstances that might signal potential conflicts of interest, or that might bear on the materiality of a director's relationship to a listed company (references to "company" would include any parent or subsidiary in a consolidated group with the company). Accordingly, it is best that boards making "independence" determinations broadly consider all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the company, the board should consider the issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. However, as the concern is independence from management, the Exchange does not view ownership of even a significant amount of stock, by itself, as a bar to an independence finding.

The basis for a board determination that a relationship is not material must be disclosed in the company's annual proxy statement or, if the company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC. In this regard, a board may adopt and disclose categorical standards to assist it in making determinations of independence and may make a general disclosure if a director meets these standards. Any determination of independence for a director who does not meet these standards must be specifically explained. A company must disclose any standard it adopts. It may then make the general statement

that the independent directors meet the standards set by the board without detailing particular aspects of the immaterial relationships between individual directors and the company. In the event that a director with a business or other relationship that does not fit within the disclosed standards is determined to be independent, a board must disclose the basis for its determination in the manner described above. This approach provides investors with an adequate means of assessing the quality of a board's independence and its independence determinations while avoiding excessive disclosure of immaterial relationships.

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 (b) In addition:

- (i) A director who is an employee, or whose immediate family member is an executive officer, of the company is not independent until three years after the end of such employment relationship.

•• *Commentary* -----

Employment as an interim chairman or CEO shall not disqualify a director from being considered independent following that employment.

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- (ii) A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not considered independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.

•• *Commentary* -----

Compensation received by a director for former service as an interim chairman or CEO need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the listed company need not be considered in determining independence under this test.

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- (iii) A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the company is not "independent" until three years after the end of the affiliation or the employment or auditing relationship.

- (iv) A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the listed company's present executives serve on that company's compensation committee is not "independent" until three years after the end of such service or the employment relationship.
- (v) A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of company that makes payments to, or receives payments from, the listed company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$200,000 (\$1 million if the listed company is also listed on the New York Stock Exchange), or 5% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.

•• *Commentary* -----

In applying the test in Rule 867.02(b)(v), both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the listed company and the director or immediate family member's current employer; a listed company need not consider former employment of the director or immediate family member.

Charitable organizations shall not be considered "companies" for purposes of Rule 867.02(b)(v), provided however that a listed company shall disclose in its annual proxy statement, or if the listed company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC, any charitable contributions made by the listed company to any charitable organization in which a director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year exceeded the greater of \$200,000 (\$1 million if the listed company is also listed on the New York Stock Exchange), or 5% of such charitable organization's consolidated gross revenues. Listed company boards are reminded of their obligations to consider the materiality of any such relationship in accordance with Rule 867.02(a) above.

*General Commentary to Rule 867.02(b):* An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When applying the look-back provisions in Rule 867.02(b), listed companies need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated. In addition, references to the

"company" would include any parent or subsidiary in a consolidated group with the company.

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**Transition Rule.** Each of the above standards contains a three-year "look-back" provision. In order to facilitate a smooth transition to the new independence standards, the Exchange will phase in the "look-back" provisions by applying only a one-year look-back for the first year after adoption of these new standards. The three-year look-backs provided for in Rule 867.02(b) will begin to apply only from June 17, 2005 (the "Three-Year Look-Back Date").

As an example, until the Three-Year Look-Back Date, a company need look back only one year when testing compensation under Rule 867.02(b)(ii). Beginning on the Three-Year Look-Back Date, however, the company would need to look back the full three years provided in Rule 867.02(b)(ii).

**3. To empower non-management directors to serve as a more effective check on management, the non-management directors of each company must meet at regularly scheduled executive sessions without management.**

••• *Commentary* -----

To promote open discussion among the non-management directors, companies must schedule regular executive sessions in which those directors meet without management participation. "Non-management" directors are all those who are not company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933), and includes such directors who are not independent by virtue of a material relationship, former status or family membership, or for any other reason.

Regular scheduling of such meetings is important not only to foster better communication among non-management directors, but also to prevent any negative inference from attaching to the calling of executive sessions. There need not be a single presiding director at all executive sessions of the non-management directors. If one director is chosen to preside at these meetings, his or her name must be disclosed in the company's annual proxy statement or, if the company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC. Alternatively, a company may disclose the procedure by which a presiding director is selected for each executive session. For example, a company may wish to rotate the presiding position among the chairs of board committees.

In order that interested parties may be able to make their concerns known to the non-management directors, a company must disclose a method for such parties to communicate directly with the presiding director or with

the non-management directors as a group. Companies may, if they wish, utilize for this purpose the same procedures they have established to comply with the requirements of Rule 10A-3(b)(3) under the Exchange Act, as applied to listed companies through Rule 867.06.

While this Rule 867.03 refers to meetings of non-management directors, if that group includes directors who are not independent under this Rule 867, listed companies should at least once a year schedule an executive session including only independent directors.

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**4. (a) Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.**

**(b) The nominating/corporate governance committee must have a written charter that addresses:**

- (i) the committee's purpose and responsibilities - which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance principles applicable to the corporation; and oversee the evaluation of the board and management; and
- (ii) an annual performance evaluation of the committee.

**••• Commentary -----**

A nominating/corporate governance committee is central to the effective functioning of the board. New director and board committee nominations are among a board's most important functions. Placing this responsibility in the hands of an independent nominating/corporate governance committee can enhance the independence and quality of nominees. The committee is also responsible for taking a leadership role in shaping the corporate governance of a corporation.

If a company is legally required by contract or otherwise to provide third parties with the ability to nominate directors (for example, preferred stock rights to elect directors upon a dividend default, shareholder agreements, and management agreements), the selection and nomination of such directors need not be subject to the nominating committee process.

The nominating/corporate governance committee charter should also address the following items: committee member qualifications; committee member appointment and removal; committee structure and



operations (including authority to delegate to subcommittees); and committee reporting to the board. In addition, the charter should give the nominating/corporate governance committee sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms.

Boards may allocate the responsibilities of the nominating/corporate governance committee to committees of their own denomination, provided that the committees are composed entirely of independent directors. Any such committee must have a published committee charter.

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**5. The Exchange lists only standardized options, as defined in Rule 9b-1 under the Exchange Act, issued by a clearing agency that is registered pursuant to Section 17A of the Exchange Act, pursuant to the Rule 1000, 1000A and 1000C Series. The Exchange will not list securities pursuant to any other Rule until the Exchange files a proposed rule change under Section 19(b)(2) under the Exchange Act to amend its Rules to make any changes needed to comply with Rule Rule 10C-1 under the Exchange Act, relating to compensation committees, and such proposed rule change is approved by the Commission.**

**(a) Listed companies must have a compensation committee composed entirely of independent directors.**

**(b) The compensation committee must have a written charter that addresses:**

- (i) the committee's purpose and responsibilities -- which, at minimum, must be to have direct responsibility to:
  - (A) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation; and
  - (B) make recommendations to the board with respect to non-CEO compensation, incentive-compensation plans and equity-based plans; and
  - (C) produce a compensation committee report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report on Form 10-K filed with the SEC;
- (ii) an annual performance evaluation of the compensation committee.

••• *Commentary* -----

In determining the long-term incentive component of CEO compensation, the committee should consider the company's performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the listed company's CEO in past years. To avoid confusion, note that the compensation committee is not precluded from approving awards (with or without ratification of the board) as may be required to comply with applicable tax laws.

The compensation committee charter should also address the following items: committee member qualifications; committee member appointment and removal; committee structure and operations (including authority to delegate to subcommittees); and committee reporting to the board.

Additionally, if a compensation consultant is to assist in the evaluation of director, CEO or senior executive compensation, the compensation committee charter should give that committee sole authority to retain and terminate the consulting firm, including sole authority to approve the firm's fees and other retention terms.

Boards may allocate the responsibilities of the compensation committee to committees of their own denomination, provided that the committees are composed entirely of independent directors. Any such committee must have a published committee charter.

Nothing in this provision should be construed as precluding discussion of CEO compensation with the board generally, as it is not the intent of this standard to impair communication among members of the board.

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## **6. Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.**

### **•• Commentary -----**

The Exchange will apply the requirements of Rule 10A-3 in a manner consistent with the guidance provided by the Securities and Exchange Commission in SEC Release No. 34-47654 (April 1, 2003). Without limiting the generality of the foregoing, the Exchange will provide companies the opportunity to cure defects provided in Rule 10A-3(a)(3) under the Exchange Act.

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**7. (a) The audit committee must have a minimum of three members.****•• Commentary -----**

Each member of the audit committee must be financially literate, as such qualification is interpreted by the company's board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the audit committee. In addition, at least one member of the audit committee must have accounting or related financial management expertise, as the company's board interprets such qualification in its business judgment. While the Exchange does not require that a listed company's audit committee include a person who satisfies the definition of audit committee financial expert set out in Item 401(h) of Regulation S-K, a board may presume that such a person has accounting or related financial management expertise.

Because of the audit committee's demanding role and responsibilities, and the time commitment attendant to committee membership, each prospective audit committee member should evaluate carefully the existing demands on his or her time before accepting this important assignment. Additionally, if an audit committee member simultaneously serves on the audit committees of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve, then in each case, the board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination in the company's annual proxy statement or, if the company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC.

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**(b) In addition to any requirement of Rule 10A-3(b)(1), all audit committee members must satisfy the requirements for independence set out in Rule 867.02.**

**(c) The audit committee must have a written charter that addresses:**

(i) the committee's purpose -- which, at minimum, must be to:

(A) assist board oversight of (1) the integrity of the company's financial statements, (2) the company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the company's internal audit function and independent auditors; and

- (B) prepare an audit committee report as required by the SEC to be included in the company's annual proxy statement;
- (ii) an annual performance evaluation of the audit committee; and
- (iii) the duties and responsibilities of the audit committee - which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3) (4) and (5) of the Exchange Act, as well as to:
- (A) at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the company;

••• *Commentary* -----

After reviewing the foregoing report and the independent auditor's work throughout the year, the audit committee will be in a position to evaluate the auditor's qualifications, performance and independence. This evaluation should include the review and evaluation of the lead partner of the independent auditor. In making its evaluation, the audit committee should take into account the opinions of management and the company's internal auditors (or other personnel responsible for the internal audit function). In addition to assuring the regular rotation of the lead audit partner as required by law, the audit committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. The audit committee should present its conclusions with respect to the independent auditor to the full board.

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- (B) discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including the company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- (C) discuss the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;

••• *Commentary* -----

The audit committee's responsibility to discuss earnings releases as well as financial information and earnings guidance may be done generally (i.e., discussion of the types of information to be disclosed and the type of presentation to be made). The audit committee need not discuss in advance each earnings release or each instance in which a company may provide earnings guidance.

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(D) discuss policies with respect to risk assessment and risk management;

•• *Commentary* -----

While it is the job of the CEO and senior management to assess and manage the company's exposure to risk, the audit committee must discuss guidelines and policies to govern the process by which this is handled. The audit committee should discuss the company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The audit committee is not required to be the sole body responsible for risk assessment and management, but, as stated above, the committee must discuss guidelines and policies to govern the process by which risk assessment and management is undertaken. Many companies, particularly financial companies, manage and assess their risk through mechanisms other than the audit committee. The processes these companies have in place should be reviewed in a general manner by the audit committee, but they need not be replaced by the audit committee.

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(E) meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;

•• *Commentary* -----

To perform its oversight functions most effectively, the audit committee must have the benefit of separate sessions with management, the independent auditors and those responsible for the internal audit function. As noted herein, all listed companies must have an internal audit function. These separate sessions may be more productive than joint sessions in surfacing issues warranting committee attention.

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(F) review with the independent auditor any audit problems or difficulties and management's response;

**•• Commentary -----**

The audit committee must regularly review with the independent auditor any difficulties the auditor encountered in the course of the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management. Among the items the audit committee may want to review with the auditor are: any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm to the company. The review should also include discussion of the responsibilities, budget and staffing of the company's internal audit function.

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(G) set clear hiring policies for employees or former employees of the independent auditors; and

**•• Commentary -----**

Employees or former employees of the independent auditor are often valuable additions to corporate management. Such individuals' familiarity with the business, and personal rapport with the employees, may be attractive qualities when filling a key opening. However, the audit committee should set hiring policies taking into account the pressures that may exist for auditors consciously or subconsciously seeking a job with the company they audit.

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(H) report regularly to the board of directors.

**•• Commentary -----**

The audit committee should review with the full board any issues that arise with respect to the quality or integrity of the company's financial statements, the company's compliance with legal or regulatory requirements, the performance and independence of the company's independent auditors, or the performance of the internal audit function.

*General Commentary to Rule 867.07(c):* While the fundamental responsibility for the company's financial statements and disclosures rests with management and the independent auditor, the audit committee must

review: (A) major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles, and major issues as to the adequacy of the company's internal controls and any special audit steps adopted in light of material control deficiencies; (B) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the company; and (D) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma," or "adjusted" non-GAAP, information), as well as review any financial information and earnings guidance provided to analysts and rating agencies.

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**(d) Each listed company must have an internal audit function.**

**•• Commentary -----**

Listed companies must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. A company may choose to outsource this function to a third party service provider other than its independent auditor.

*General Commentary to Rule 867.07:* To avoid any confusion, note that the audit committee functions specified in Rule 867.07 are the sole responsibility of the audit committee and may not be allocated to a different committee.

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**8. Requirements relating to shareholder approval of equity compensation plans and broker voting are set forth in Rule 850.**

**9. Listed companies must adopt and disclose corporate governance guidelines.**

**•• Commentary -----**

No single set of guidelines would be appropriate for every company, but certain key areas of universal importance include director qualifications and responsibilities, responsibilities of key board committees, and

director compensation. Given the importance of corporate governance, each listed company's website must include its corporate governance guidelines and the charters of its most important committees (including at least the audit, and if applicable, compensation and nominating committees). Each company's annual report on Form 10-K filed with the SEC must state that the foregoing information is available on its website, and that the information is available in print to any shareholder who requests it. Making this information publicly available should promote better investor understanding of the company's policies and procedures, as well as more conscientious adherence to them by directors and management.

The following subjects must be addressed in the corporate governance guidelines:

- **Director qualification standards.** These standards should, at minimum, reflect the independence requirements set forth in Rules 867.01 and .02. Companies may also address other substantive qualification requirements, including policies limiting the number of boards, on which a director may sit, and director tenure, retirement and succession.
- **Director responsibilities.** These responsibilities should clearly articulate what is expected from a director, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.
- **Director access to management and, as necessary and appropriate, independent advisors.**
- **Director compensation.** Director compensation guidelines should include general principles for determining the form and amount of director compensation (and for reviewing those principles, as appropriate). The board should be aware that questions as to directors' independence may be raised when directors' fees and emoluments exceed what is customary. Similar concerns may be raised when the company makes substantial charitable contributions to organizations in which a director is affiliated, or enters into consulting contracts with (or provides other indirect forms of compensation to) a director. The board should critically evaluate each of these matters when determining the form and amount of director compensation, and the independence of a director.
- **Director orientation and continuing education.**
- **Management succession.** Succession planning should include policies and principles for CEO selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the CEO.



- **Annual performance evaluation of the board.** The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.

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**10. Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.**

••• *Commentary* -----

No code of business conduct and ethics can replace the thoughtful behavior of an ethical director, officer or employee. However, such a code can focus the board and management on areas of ethical risk, provide guidance to personnel to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help to foster a culture of honesty and accountability.

Each code of business conduct and ethics must require that any waiver of the code for executive officers or directors may be made only by the board or a board committee and must be promptly disclosed to shareholders. This disclosure requirement should inhibit casual and perhaps questionable waivers, and should help assure that, when warranted, a waiver is accompanied by appropriate controls designed to protect the company. It will also give shareholders the opportunity to evaluate the board's performance in granting waivers.

Each code of business conduct and ethics must also contain compliance standards and procedures that will facilitate the effective operation of the code. These standards should ensure the prompt and consistent action against violations of the code. Each listed company's website must include its code of business conduct and ethics. Each company's annual report on Form 10-K filed with the SEC must state that the foregoing information is available on its website and that the information is available in print to any shareholder who requests it.

Each company may determine its own policies, but all listed companies should address the most important topics, including the following:

- **Conflicts of interest.** A "conflict of interest" occurs when an individual's private interest interferes in any way—or even appears to interfere—with the interests of the corporation as a whole. A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her company work objectively and effectively. Conflicts of interest also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result

of his or her position in the company. Loans to, or guarantees of obligations of, such persons are of special concern. The company should have a policy prohibiting such conflicts of interest, and providing a means for employees, officers and directors to communicate potential conflicts to the company.

- **Corporate opportunities.** Employees, officers and directors should be prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; (b) using corporate property, information, or position for personal gain; and (c) competing with the company. Employees, officers and directors owe a duty to the company to advance its legitimate interests when the opportunity to do so arises.
- **Confidentiality.** Employees, officers and directors should maintain the confidentiality of information entrusted to them by the company or its customers, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that might be of use to competitors, or harmful to the company or its customers, if disclosed.
- **Fair dealing.** Each employee, officer and director should endeavor to deal fairly with the company's customers, suppliers, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice. Companies may write their codes in a manner that does not alter existing legal rights and obligations of companies and their employees, such as "at will" employment arrangements.
- **Protection and proper use of company assets.** All employees, officers and directors should protect the company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the company's profitability. All company assets should be used for legitimate business purposes.
- **Compliance with laws, rules and regulations (including insider trading laws).** The company should proactively promote compliance with laws, rules and regulations, including insider trading laws. Insider trading is both unethical and illegal, and should be dealt with decisively.
- **Encouraging the reporting of any illegal or unethical behavior.** The company should proactively promote ethical behavior. The company should encourage employees to talk to supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation. Additionally, employees should report violations of laws, rules, regulations or the code of business conduct to appropriate personnel. To encourage employees to report such violations, the company must ensure that employees know that the company will not allow retaliation for reports made in good faith.

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**11. Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under Exchange listing standards.**

**••• Commentary -----**

Foreign private issuers must make their U.S. investors aware of the significant ways in which their home-country practices differ from those followed by domestic companies under Exchange listing standards. However, foreign private issuers are not required to present a detailed, item-by-item analysis of these differences. Such a disclosure would be long and unnecessarily complicated. Moreover, this requirement is not intended to suggest that one country's corporate governance practices are better or more effective than another. The Exchange believes that U.S. shareholders should be aware of the significant ways that the governance of a listed foreign private issuer differs from that of a U.S. listed company. The Exchange underscores that what is required is a brief, general summary of the significant differences, not a cumbersome analysis.

Listed foreign private issuers may provide this disclosure either on their web site (provided it is in the English language and accessible from the United States) and/or in their annual report as distributed to shareholders in the United States (again, in the English language). If the disclosure is only made available on the web site, the annual report shall so state and provide the web address at which the information may be obtained.

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**12. (a) Each listed company CEO must certify to the Exchange each year that he or she is not aware of any violation by the company of Exchange corporate governance listing standards.**

**••• Commentary -----**

The CEO's annual certification to the Exchange that, as of the date of certification, he or she is unaware of any violation by the company of Exchange's corporate governance listing standards will focus the CEO and senior management on the company's compliance with the listing standards. Both this certification to the Exchange, and any CEO/CFO certifications required to be filed with the SEC regarding the quality of the company's public disclosure, must be disclosed in the company's annual report to shareholders or, if the company does not prepare an annual report to shareholders, in the company's annual report on Form 10-K filed with the SEC.

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**(b) Each listed company CEO must promptly notify the Exchange after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Rule 867.**

**13. The Exchange may issue a public reprimand letter to any listed company that violates an Exchange listing standard.**

••• *Commentary* -----

Suspending trading in or delisting a company can be harmful to the very shareholders that the Exchange listing standards seek to protect; the Exchange must therefore use these measures sparingly and judiciously. For this reason it is appropriate for the Exchange to have the ability to apply a lesser sanction to deter companies from violating its corporate governance (or other) listing standards. Accordingly, the Exchange may issue a public reprimand letter to any listed company, regardless of type of security listed or country of incorporation, that it determines has violated an Exchange listing standard. For companies that repeatedly or flagrantly violate Exchange listing standards, suspension and delisting remain the ultimate penalties. For clarification, this lesser sanction is not intended for use in the case of companies that fall below the financial and other continued listing standards set forth in Rules 803, 804 and 805, or that fail to comply with the audit committee standards set out in Rule 867.06. The processes and procedures provided for in Rule 811, Delisting Policies and Procedures, govern the treatment of companies falling below those standards.

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**14. Related Party Transactions.** Each issuer shall conduct an appropriate review of all related party transactions on an ongoing basis and all such transactions must be approved by the company's audit committee or another independent body of the board of directors. For purposes of this Rule, the term "related party transaction" shall refer to transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

**15. Written Affirmation.** As part of the initial listing process, and with respect to any subsequent changes to the composition of the audit committee, and otherwise approximately once each year, each company should provide the Exchange written confirmation regarding:

- (i) any determination that the company's board of directors has made regarding the independence of directors pursuant to Section 867.02 above;
- (ii) the financial literacy of the audit committee members as required by Section 867.07 above;

- (iii) the determination that at least one of the audit committee members has accounting or related financial management expertise as required by Section 867.07 above; and
- (iv) the annual review and reassessment of the adequacy of the audit committee charter as required by Section 867.07 above.

**Rule 868. DIRECT REGISTRATION SYSTEM (DRS) PARTICIPATION**

(a) On or after January 1, 2007, all securities initially listing on the Exchange must be eligible for Direct Registration System operated by a securities depository that is a clearing agency registered under Section 17A(b)(2) of the Securities Exchange Act of 1934 ("Securities Depository"). This provision does not extend to: (i) securities of companies which already have securities listed on the Exchange, (ii) securities of companies which immediately prior to such listing had securities listed on another national securities exchange, (iii) derivative products, or (iv) securities (other than stocks) which are book-entry only.

(b) On or after January 1, 2008, all securities listed on the Exchange must be eligible for Direct Registration System operated by a Securities Depository. This provision does not extend to derivative products or securities (other than stocks) that are book-entry only.

(c) For the purposes of this Rule 868, the term "derivative products" shall mean, in addition to standardized options issued by The Options Clearing Corporation ("OCC"), other securities that are issued by OCC or another limited purpose entity or trust and which are based solely on the performance of an index or portfolio of other publicly traded securities. The term "derivative products" does not include warrants of any type or closed-end management investment companies.

**Membership (Rules 900—949)**

**Rule 900. Administration of Rules by Membership Department**

The Membership Department shall administer Rules 901 to 949, inclusive.

**Rule 900.1. General Powers and Duties of Membership Department**

(a) The Membership Department shall have jurisdiction over the issuance of memberships (in respect of members and member organizations) and permits and over applications by non-members for admission as members. The Membership Department shall also have jurisdiction over the revocation of memberships and permits. All applications for a membership or a permit, all applications by non-members for admission as members, all applications for reinstatement of any membership or permit suspended for insolvency of its holder, and any application for readmission of a person who has been expelled from the Exchange shall be referred to the Membership Department for review and action.

(b) Reserved

(c) All applications to qualify and register a corporation or other entity as a member organization and all applications for reinstatement of any qualification or registration of a member organization shall be referred to the Membership Department which shall investigate and act

thereon. The Membership Department shall have supervision over member corporation (and similar) arrangements, and copies of the articles of incorporation, by-laws and all amendments thereto shall be filed with the Membership Department for approval.

(d) Reserved

(e) If in a member organization that is a corporation the only officer, who was a member of this Exchange, dies or resigns, the remaining officers may request the Membership Department to permit the corporation to have the status of a member organization for such period, not exceeding sixty (60) days from the date of such death or resignation, as the Membership Department may determine and under such conditions as it may fix. The Membership Department in its discretion may, at any time during such period, withdraw such permission and upon such withdrawal such status shall terminate.

### **Rule 900.2. Membership Applications**

(a) Every applicant for a membership or a permit and every non-member seeking admission as a member upon acquisition of an existing membership shall file an application in writing with the Membership Department of the Exchange in such form as the Membership Department may prescribe from time to time, shall appear before such department if required thereby, and shall submit such information as such department may direct.

(b) All applications will be reviewed preliminarily by the staff of the Exchange. If the staff recommends that the applicant not be issued a membership or a permit the applicant shall be notified in writing of the reasons therefor and may, within fifteen (15) days of the receipt thereof, file a request with the Membership Department for its consideration of the application, together with a written statement setting forth the applicant's opinion as to why the staff recommendation is in error or insufficient to preclude the issuance of a membership or a permit.

(c) The Membership Department shall review and act upon the membership application or permit application.

(d) Absent a showing of good cause, an application filed pursuant to this Rule shall lapse after a 90 calendar day period if an applicant fails to provide the requisite documentation provided for in this Rule or any subsequent written request for information or documents pursuant to this Rule within such time period agreed to by the Membership Department. If such time period elapses, an applicant seeking membership to the Exchange shall be required to file a new application pursuant to this Rule. The applicant will be required to pay an additional application fee at that time. The Exchange will not refund any fees for lapsed applications.

(e) The provisions of this Rule 900.2 shall not apply to a corporation pursuant to Rule 798.

### **Rule 901. Denial of and Conditions to Membership**

(a). The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer, or may deny or condition the qualification or registration of any member organization, if any such person, registered broker or dealer or member organization is subject to

a statutory disqualification, as that term is defined in the Securities Exchange Act of 1934, as amended.

(b). The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer or may deny or condition the qualification or registration of any member organization, if the broker or dealer or member organization (as applicable): (1) is unable satisfactorily to demonstrate its present capacity to adhere to applicable provisions of (i) Sections 15 and 17 of the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder or (ii) Exchange Rules relating to the maintenance of books and records; or (2) has previously been found to have violated and there is a reasonable likelihood the broker or dealer or member organization will again engage in acts or practices violative of (A) Sections 15 and 17 of the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder, or (B) Rules relating to the maintenance of books and records of the Exchange or other self-regulatory organizations of which the broker or dealer or member organization is or was a member.

(c). The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer, or may deny or condition the qualification, if such broker or dealer, person or member organization: (1) does not successfully complete such written proficiency examinations as required by the Exchange to enable it to examine and verify the applicant's qualifications to function in one or more of the capacities applied for; (2) does not meet such other standards of training, experience, and competence as may be established by the Exchange; (3) cannot demonstrate a capacity to adhere to all applicable policies, rules and regulations of the Exchange or any other self-regulatory organization, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission contract market designated pursuant to Section 5 of the Commodity Exchange Act or futures association registered under Section 17 of such Act; (4) has been the subject of findings of fact rendered by any of the above mentioned entities such that the broker or dealer, person or member organization has engaged in acts or practices inconsistent with just and equitable principles of trade, and there is a reasonable likelihood the person will do so again; or (5) (i) is subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature, which remain outstanding (ii) has been or is the successor to an entity which has been subject to any bankruptcy proceeding, receivership or arrangement for the benefit of creditors within the past three years (iii) has been and/or remains associated as a general partner, principal, officer, director, stockholder, or registered trader for a member organization which has been subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature (iv) has engaged in a pattern of failure to pay just debts (v) would bring the Exchange into disrepute or (vi) for such other cause as the Membership Department reasonably may decide.

(d). The Membership Department may, in exceptional cases and where good cause is shown, waive such proficiency examinations as are required by the Exchange upon written request of the applicant, and accept other standards as evidence of an applicant's qualifications. Advanced age, physical infirmity or experience in fields ancillary to the securities business will not individually of themselves constitute sufficient grounds to waive a proficiency examination.

**Rule 902. Reserved****Rule 903. Reserved****Rule 904. Reserved****Rule 905. Reserved****Rule 906. Reserved****Rule 907. Reserved****Rule 908. Rights and Privileges of A-1 Permits**

(a) Without limiting the authority of the Exchange pursuant to Section 7-6 of the By-Laws to authorize the issuance of additional classes or series of permits pursuant to these Rules, the Exchange is authorized to issue a series of permits, denoted as "Series A-1", and to confer on the holder thereof such rights and privileges, and impose on the holder thereof such obligations, as are provided in this Rule 908.

(b) A Series A-1 permit shall only be issued to an individual who is a natural person of at least twenty-one (21) years of age. A Series A-1 permit shall only be issued to a corporation who meets the eligibility and application requirements set forth in the By-Laws and Rules, and no individual shall hold more than a single Series A-1 permit. Series A-1 permits issued in accordance with this Rule 908 shall be in such limited or unlimited number and may be issued from time to time by the Exchange, in each case as determined by the Board of Directors in its sole discretion.

(c) Any Series A-1 permit holder who is associated with a duly qualified and registered member organization (unless such holder's permit has been terminated or the rights and privileges thereof have been suspended or restricted) shall, subject to the By-Laws (including, without limitation, Section 6-1 thereof) and these Rules, be:

- (i) entitled to all the rights, privileges and obligations of a member of the Exchange and may enter into foreign currency options transactions on the Exchange, subject to (A) the general criteria set forth in these Rules or the By-Laws with respect to testing, capital, allocation and other matters, as well as such requirements as are applicable to specific Exchange activities, and further subject to the payment of any generally applicable fees, dues and other charges and (B) any product-specific criteria set forth in these Rules or the By-Laws, and further subject to any applicable fees, dues and charges relating to trading any product of the Exchange;
- (ii) required to designate a single existing or applying member organization as such permit holder's "primarily affiliated" member organization for the purpose of exercising (through such member organization's designated Member Organization Representative) such permit holder's right to vote, as set forth in Article II of the By-Laws, provided that, if such holder designates any applying member organization, such holder will then also qualify such applying member organization for the purposes of Rule 921(a); and



(iii) required to maintain a primary affiliation, as described in the foregoing clause (ii), with an eligible member organization at all times that such holder holds a permit.

(d) A Series A-1 permit shall not be effective unless it has been issued by the Exchange in accordance with the By-Laws and these Rules.

(e) The Series A-1 permit holder may terminate such permit at any time upon written notice to the Exchange, such written notice shall be ascribed by the Exchange. The terminating Series A-1 permit holder and each member organization with which such holder is associated shall remain responsible for all obligations of the terminating member, including, without limitation, all applicable dues, fees, charges, fines and other obligations arising from the holding or use of such Series A-1 permit prior to the termination thereof.

(f) The Exchange may terminate any Series A-1 permit in accordance with By-Laws and Exchange Rules and may also terminate the entire series of Series A-1 permits on no less than 60 days' notice to the permit holders; provided, however, that if within six months after any such termination of the entire series of Series A-1 permits the Exchange issues any other class or series of permit with respect to any securities product previously covered by the Series A-1 permit, any permit holder of such terminated series of Series A-1 permit, who meets the applicable eligibility requirements with respect to such new class or series of permit, shall be entitled to receive on terms no less favorable than those applicable to other persons such new class or series of permit so long as such permit holder will trade with such new class or series of permit such product in the same capacity as he had done with a Series A-1 permit prior to such termination, but only if he had continuously traded such product in such capacity for at least one year prior to such termination; provided, further, that such holder of the terminated Series A-1 permit shall make application for such new permit within 30 days of the later to occur of (i) the termination of the series of Series A-1 permit or (ii) the initial issuance of the new class or series of permit.

(g) Notwithstanding termination of a permit for any reason, the permit holder and each member organization with which such permit holder had been associated while such permit was held shall remain subject to the continuing regulatory jurisdiction of the Exchange in respect of all matters related to the holding or use of such permit and all activities involving the Exchange and trading on the Exchange or any other use of Exchange facilities, and in respect of fees, dues and other charges, prior to the termination thereof.

(h) A permit may not be transferred by lease, sale, gift, involuntary transfer, or any other means or as collateral to secure any obligation, except that a permit may be transferred within the permit holder's member organization or to an "inactive nominee" who is registered as such with the Exchange, subject to the provisions of the By-Laws and Rules relating to an "inactive nominee".

#### **Rule 910. Qualification as Member Organization**

(a) The Board of Directors may permit a member of this Exchange to qualify an entity as a member organization, subject to such terms and conditions as may from time to time be prescribed by Rule or may be imposed by the Board of Directors.

(b) Only an organization whose principal purpose is the transaction of business as a broker or dealer in securities may be qualified as a member organization.

(c) A Member Organization shall be organized under the laws of a jurisdiction approved by the Membership Department.

(d) If it appears to the Membership Department that the business form of a member organization is being used to evade financial responsibility, such organization shall not be registered as a member organization.

(e) No bank and no investment trust may be qualified or registered as a member organization.

(f)(1) To obtain and maintain the status of a member organization, an organization shall: (i) be a broker or dealer duly registered under the Exchange Act; (ii) be duly qualified by a permit holder who is primarily affiliated with such organization for purposes of nominating as provided in the By-Laws; (iii) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and materials requested by the Membership Department; (iv) have had such application approved by the Membership Department; and (v) meet such other requirements as are set forth in these By-Laws or the Rules of the Exchange.

(2) To obtain and maintain the status of a Market Maker on PSX, a member organization whose market making has not previously been approved by FINRA under the NASD Rule 1000 Series (or such successor FINRA Rules as may be adopted by FINRA), Nasdaq under the Nasdaq Rule 1000 Series, or Nasdaq BX under the BX Rule 1000 Series shall: (i) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and material requested by the Membership Department; (ii) have had such application approved by the Membership Department; and (iii) meet such other requirements as are set forth in the By-Laws or Rules of the Exchange. The information to be provided shall include a business plan, an organizational chart, written supervisory procedures reflecting the change, and such other information as the Membership Department may request.

(3) An applicant that is an approved member in good standing of The Nasdaq Stock Market, LLC ("Nasdaq") or Nasdaq BX, Inc. ("BX") shall have the option to apply to become a member of the Exchange and to register with the Exchange all associated persons of the firm whose registrations with the firm are approved with Nasdaq or BX in categories recognized by the Rules of the Exchange through an expedited process. The expedited process requires applicants to complete an Organization Membership Application and attest that the application material previously provided and reviewed as part of the Nasdaq or BX application is complete and accurate but does not require the applicant to submit duplicative documentation which was previously produced.

(g) Upon any violation of the terms and conditions of its registration, or if at any time the requirements thereof are not met, the Board of Directors may terminate the registration of a member organization by the affirmative vote of a majority of all Directors.

(h) A member of the Exchange who has qualified a member organization or a member organization may apply to the Membership Department for termination of the registration of the member organization. Such termination shall become effective upon such date as the Membership Department may determine and in no event shall it be effective until and unless the member organization and the member have discharged all commitments and liabilities to the Exchange and to its members and member organizations, or have made provision therefor satisfactory to the Membership Department. If the member who has qualified the member organization is prevented by death or incapacity from applying for the termination of such registration, the application may be made under the same terms and conditions as herein provided by his legal representative.

(i) During the unavoidable absence or disability of an officer (or person in a similar position) of a member organization who is a member of the Exchange, any officer or director (or person in a similar position) of such member organization shall have the privilege of effecting transactions on the Exchange in the name of the member organization.

#### **Rule 911. Member and Member Organization Participation**

(a) Participation in the Exchange as a member or member organization requires current registration as such with the Exchange. Such registration shall be conditioned upon the member or member organization's initial and continuing compliance with the following requirements:

- (1) execution of applicable agreements with the Exchange;
- (2) membership in, or access arrangement with a member of, a clearing agency registered with the Commission which maintains facilities through which Exchange compared trades may be settled;
- (3) compliance with all applicable Rules and operating procedures of the Exchange and the Commission in the use of the system including, but not limited to, PSX, PHLX XL and the Floor Based Management System ("FBMS") (for purposes of this Rule, PSX, PHLX XL and FBMS together shall be defined as ("System"));
- (4) maintenance of the physical security of the equipment located on the premises of the member or member organization to prevent the improper use or access to the Exchange's systems, including unauthorized entry of information into the Exchange's System; and
- (5) acceptance and settlement of each trade that the Exchange identifies as having been effected by such member or member organization, or if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such

identified Exchange trade by the clearing member on the regularly scheduled settlement date; and

- (6) input of accurate information into the System, including, but not limited to, whether the member organization acted in a principal, agent, or riskless principal capacity.

A member's registration shall become effective upon receipt by the member or member organization of notice of an approval of registration by the Exchange. The registration required hereunder will apply solely to the qualification of a member or member organization to participate in the System. Registration will qualify a member or member organization to trade all System Securities.

- (b) Each member or member organization shall be under a continuing obligation to inform the Exchange of noncompliance with any of the registration requirements set forth above.
- (c) The Exchange may impose upon any member or member organization such temporary restrictions upon the automated entry or updating of orders or quotes/orders as the Exchange may determine to be necessary to protect the integrity of the Exchange's systems. For example, such temporary restrictions may be necessary to address a system problem at a particular member or member organization or at the Exchange, or an unexpected period of extremely high message traffic. The scope of any such restrictions shall be communicated to the affected member or member organization in writing.

#### **Rule 912. Transfer of Accounts**

A member or member organization who desires to transfer an Exchange account(s) to or from a member organization shall be required to: (1) notify the Exchange's Membership Department in writing of its intent to transfer account(s) in a manner prescribed by the Membership Department; and (2) execute and provide a Letter of Indemnity to the Exchange.

#### **Rule 921. Qualification; Designation of Executive Representative**

(a) Each member organization, as a condition of initial and continued registration as a member organization, must be a broker or dealer duly registered with the Securities and Exchange Commission qualified by a permit holder who is associated with such organization. A member of the Exchange who proposes to qualify an entity as a member organization shall present to the Membership Department an application therefor, in writing, signed by the member and the entity. Each member may qualify only a single member organization.

(b) Each member organization must, as a condition of initial and continued registration as a member organization, designate and maintain one qualified Executive Representative, who will be the sole person entitled to exercise such member organization's voting and designation rights set forth in Article II of the By-Laws. Each member organization shall designate its Executive Representative in writing in such form or manner as shall be prescribed from time to time by the Exchange.

(c) In the event that the Executive Representative of a member organization or the permit holder who qualified a member organization dies, ceases to be associated with the member organization or otherwise is unable to serve as such, such member organization shall immediately notify the Exchange thereof in writing and replace such Executive Representative or permit holder through which such member organization is qualified promptly, but in no event more than 60 days, after such death, cessation or inability, during which period any other officer or agent of the member organization may temporarily act as the Executive Representative or qualifying permit holder for such organization. If the member organization fails for any reason to so notify the Exchange or replace such Executive Representative or qualifying permit holder within such period, until such replacement is effected, such member organization may not exercise any voting rights with respect to any permits held by persons who are associated with such member organization.

(d) In the event that such Executive Representative or permit holder dies, ceases to be associated with the member organization or otherwise is unable to serve as such, such organization shall replace such Executive Representative or permit holder through which such member organization is qualified promptly, as specified in the Rules of the Exchange, provided that until such replacement is effected the ability of other officers or agents of the member organization to act temporarily for such organization shall be as set forth in the Rules of the Exchange. The penalties and other consequences of a member organization failing to designate or replace a Executive Representative within the time period specified above shall be as provided in the Rules of the Exchange. The Rules of the Exchange may provide for appropriate procedures concerning the designation and replacement of, and any other matters pertaining to Executive Representatives.

#### **Rule 922. Certificate of Incorporation**

The certificate of incorporation and by-laws of a proposed member organization that is a corporation and all amendments thereto shall be filed with the Membership Department and shall be subject to its approval. There shall also be filed with the Membership Department evidence satisfactory to it that the officers of the corporation are duly authorized to act for it in entering into contracts which are subject to these Rules of the Exchange.

Amendments to the certificate of incorporation and by-laws of a member organization that is a corporation, proposed subsequent to its registration, shall be subject to review by the Membership Department which shall have power to approve or disapprove the same.

#### **Rule 923. Review of Membership Department Decisions**

If the Membership Department takes an adverse action with respect to a membership application, permit application, or other matter for which the Membership Department has responsibility, the department will notify the applicant in writing of the specific grounds for denial and the applicant shall have a right to a hearing.

##### **(a) Review by the Exchange Review Council**

###### **(i) Initiation of Review by Applicant**

Within 25 days after service of a decision of an adverse action described above, an applicant may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the applicant believes that the Department's decision is inconsistent with the bases for denial set forth in Rule 901, or otherwise should be set aside, and state whether a hearing is requested. The applicant simultaneously shall file by first-class mail a copy of the request with the Department.

**(ii) Transmission of Documents**

Within ten days after the filing of a request for review, the Department shall:

- (A) transmit to the Exchange Review Council copies of all documents that were considered in connection with the Department's decision and an index to the documents; and
- (B) serve on the applicant a copy of such documents (other than those documents originally submitted by applicant) and a copy of the index.

**(iii) Membership Application Docket**

The Department shall promptly record in the Exchange's membership application docket each request for review filed with the Exchange Review Council under this Rule and each material subsequent event, filing, and change in the status of a membership proceeding.

**(iv) Appointment of Subcommittee**

The Exchange Review Council or the Review Subcommittee defined in Rule 9120 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

**(v) Powers of Subcommittee**

If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Department and any written submissions made by the applicant or the Department in connection with the request for review.

**(vi) Hearing**

**(A) Notice**

If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the

Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the hearing to the applicant by facsimile or overnight courier not later than 14 days before the hearing.

**(B) Counsel**

The applicant and the Department may be represented by counsel at a hearing conducted pursuant to this Rule.

**(C) Evidence**

Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the applicant and the Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the applicant or the Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

**(D) Transcript**

The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The applicant, the Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee within a reasonable period of time prescribed by the Subcommittee. Upon notice to the applicant and the Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

**(vii) Additional Information, Briefs**

At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the applicant or the Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.

**(viii) Abandonment of Request for Review**

If an applicant fails to specify the grounds for its request for review under subparagraph (a)(i), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Department shall become the final action of the Exchange. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

(ix) **Subcommittee Recommendation**

The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (a)(vi), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

(x) **Decision**

(A) **Proposed Written Decision**

After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Department's decision or remand the membership proceeding with instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (B).

(B) **Contents**

The decision shall include:

- (1) a description of the Department's decision, including its rationale;
- (2) a description of the principal issues raised in the review;
- (3) a summary of the evidence on each issue; and
- (4) a statement whether the Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in Rule 901.

(C) **Issuance of Decision After Expiration of Call for Review Periods**

The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the membership proceeding for review pursuant to paragraph (b) of this rule below. If the Exchange Board does not call the membership proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the applicant with a written notice specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

(D) **Failure to Issue Decision**



If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (C), the applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time, the Exchange Board may extend the 15-day time limit by not more than 15 days.

**(b) Discretionary Review by the Exchange Board**

**(i) Call for Review by Director**

A Director may call a membership proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (ii).

**(ii) 15 Day Period; Waiver**

A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

**(iii) Review At Next Meeting**

If a Director calls a membership proceeding for review within the time prescribed in subparagraph (ii), the Exchange Board shall review the membership proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the applicant and the Department to file briefs in connection with review proceedings pursuant to this paragraph.

**(iv) Decision of the Exchange Board, Including Remand**

After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may remand the membership proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in Rule 923(a)(x)(B).

**(v) Issuance of Decision**

The Exchange Board shall serve its written decision on the applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final

action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the membership proceeding.

**Rule 924. Obligations of Members and Member Organizations to the Exchange**

*Member Obligations.* (a) Each member shall be liable for such fees, fines, dues, penalties and other amounts imposed by the Exchange in connection with his permit or any activities conducted in connection therewith by such member, whether or not any such obligation was incurred on behalf or for his account, or on behalf or for the account of his member organization.

*Member Organization Obligations.* (b) Each member organization shall be liable for all fees, fines, dues, penalties or other amounts imposed by the Exchange upon such member organization, and upon, any member associated with such member organization in connection with a permit or any activities conducted in connection therewith by such member on behalf or for the account of such member organization. Member organizations may allocate responsibilities as among themselves regarding members associated with more than one member organization, provided that such allocation and any amendment thereto is in writing and duly executed by authorized officers or partners of such member organization and submitted to the Exchange in a form prescribed by the Exchange at least 30 days prior to the effectiveness thereof or such shorter period as the Chairman of the Board of Directors or his designee shall specify.

**Rule 926. The Exchange's Business Continuity and Disaster Recovery Plan Testing Requirements for Member Organizations and PSX Participants Pursuant to Regulation SCI**

With respect to the Exchange's business continuity and disaster recovery plans, including its backup systems, the Exchange shall:

(a) Establish standards for the designation of those Member Organizations and PSX Participants that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of such plans. Such standards may include volume-based and/or market share-based criteria, and may be adjusted from time to time by the Exchange. The Exchange will provide public notice of the standards;

(b) Designate Members Organizations and PSX Participants pursuant to the standards established in paragraph (a) of this rule and require participation by such designated Members Organizations and PSX Participants in scheduled functional and performance testing of the operation of such plans, in the manner and frequency specified by the Exchange, provided that such frequency shall not be less than once every 12 months. The Exchange will provide at least six months prior notice to Members Organizations and PSX Participants that are designated for mandatory testing, and participation of such Members Organizations and PSX Participants is a condition of membership.

**Rule 931. Reserved**

Reserved

**Rule 932. Reserved**

Reserved

**Rule 940. Reserved**

Reserved.

**Rule 941. Reserved**

Reserved.

**Rule 942. Reserved**

Reserved.

**Rule 949. Reserved**

Reserved.

**Transitional Rules Relating To Demutualization Of The Exchange (Rules 971—972 Deleted)****Rule 971. Deleted****Rule 972. Deleted****Regulatory Services Agreements (Rule 980)****Rule 980. Regulatory Services Agreements**

The Board may authorize any officer, on behalf of the Exchange, subject to the approval of the Board, to enter into one or more agreements with another self-regulatory organization to provide regulatory services to the Exchange to assist the Exchange in discharging its obligations under Section 6 and Section 19(g) of the Securities Exchange Act of 1934. Any action taken by another self-regulatory organization, or its employees or authorized agents, acting on behalf of the Exchange pursuant to a regulatory services agreement shall be deemed to be an action taken by the Exchange; provided, however, that nothing in this provision shall affect the oversight of such other self-regulatory organization by the Securities and Exchange Commission. Notwithstanding the fact that the Exchange may enter into one or more regulatory services agreements, the Exchange shall retain ultimate legal responsibility for, and control of, its self-regulatory responsibilities, and any such regulatory services agreement shall so provide.

**Affiliation and Ownership Restrictions (Rule 985)****Rule 985. Affiliation and Ownership Restrictions****(a) Nasdaq Ownership Restriction**

(i) No member, member organization, or person associated with a member organization shall be the beneficial owner of greater than twenty percent (20%) of the then-outstanding voting securities of Nasdaq, Inc.

(ii) For purposes of this Rule, any calculation of the number of shares of common stock outstanding at any particular time shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i)(D) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). The term "beneficial owner" shall have the meaning set forth in the Restated Certificate of Incorporation of Nasdaq, Inc.

**(b) Restrictions on Affiliation**

(i) Except as provided in paragraph (ii) below:

(A) the Exchange or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member, member organization, or an affiliate of an Exchange member or member organization in the absence of an effective filing under Section 19(b) of the Exchange Act; and

(B) an Exchange member or member organization shall not be or become an affiliate of the Exchange, or an affiliate of an entity affiliated with the Exchange, in the absence of an effective filing under Section 19(b) of the Exchange Act.

The term "affiliate" shall have the meaning specified in Rule 12b-2 under the Exchange Act; provided, however, that for purposes of this Rule, one entity shall not be deemed to be an affiliate of another entity solely by reason of having a common director. The term "business venture" means an arrangement under which (A) the Exchange or an entity with which it is affiliated, and (B) an Exchange member or member organization, or an affiliate of an Exchange member or member organization, engage in joint activities with an expectation of shared profit and a risk of shared loss from common entrepreneurial efforts.

(ii) Nothing in this Rule shall prohibit, or require a filing under Section 19(b) of the Exchange Act, for:

(A) an Exchange member or member organization, or an affiliate of an Exchange member or member organization, acquiring or holding an equity interest in Nasdaq, Inc. that is permitted by the ownership limitations contained in Rule 985(a), or

(B) the Exchange or an entity affiliated with the Exchange acquiring or maintaining an ownership interest in, or engaging in a business venture with, an affiliate of an Exchange member or member organization if:

(I) there are information barriers between the member or member organization and the Exchange and its facilities, such that the member or member organization

(aa) will not be provided an informational advantage concerning the operation of the Exchange and its facilities, and will not be provided changes or improvements to the trading system that are not available to the industry generally or other Exchange members or member organizations;

(bb) will not have any knowledge in advance of other Exchange members or member organizations of proposed changes, modifications, or improvements to the operations or trading systems of the Exchange and its facilities, including advance knowledge of Exchange filings pursuant to Section 19(b) of the Exchange Act;

(cc) will be notified of any proposed changes, modifications, or improvements to the operations or trading systems of the Exchange and its facilities in the same manner as other Exchange members or member organizations are notified; and

(dd) will not share employees, office space, or databases with the Exchange or its facilities, Nasdaq, Inc., or any entity that is controlled by Nasdaq, Inc.; and

(II) the Exchange's Board certifies, on an annual basis, to the Securities and Exchange Commission's Division of Trading and Markets that the Exchange has taken all reasonable steps to implement the requirements of this Rule and is in compliance therewith.

(c) (1) Nasdaq, Inc., which owns Nasdaq Options Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Options Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange members and member organizations in connection with the provision of inbound routing to the Exchange.

(2) Nasdaq, Inc., which owns Nasdaq Execution Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange members and member organizations in connection with the provision of inbound routing to the Exchange.

#### **Additional Requirements for Securities Listed on the Exchange Issued by Nasdaq or its Affiliates (Rule 990)**

#### **Rule 990. Additional Requirements for Securities Listed on the Exchange Issued by Nasdaq or its Affiliates**

(a) For purposes of this Rule 990, the terms below are defined as follows:

(1) "Nasdaq Affiliate" means Nasdaq, Inc. and any entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with Nasdaq, Inc., where "control" means that the one entity possesses, directly or indirectly, voting control of the other entity either through ownership of capital stock or other equity securities or through majority representation on the board of directors or other management body of such entity.

(2) "Affiliate Security" means any security issued by a Nasdaq Affiliate or any Exchange-listed option on any such security, with the exception of Trust Shares and Index Fund Shares.

(A) The term "Trust Shares" means a security (a) that is based on a unit investment trust ("Trust") which holds the securities which comprise an index or portfolio underlying a series of Trust Shares; (b) that is issued by the Trust in a specified aggregate minimum number in return for a "Portfolio Deposit" consisting of specified numbers of shares of stock plus a cash amount; (c) that, when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the "Portfolio Deposit"; and (d) that pays holders a periodic cash payment corresponding to the regular cash dividends or distributions declared with respect to the component securities of the stock index or portfolio of securities underlying the Trust Shares, less certain expenses and other charges as set forth in the Trust prospectus.

(B) The term "Index Fund Shares" means a security (a) that is issued by an open-end management investment company based on a portfolio of stocks that seeks to provide investment results that correspond generally to the price and yield performance of specified foreign or domestic stock index; (b) that is issued by such an open-end management investment company in a specified aggregate minimum number in return for a deposit of specified numbers of shares of stock and/or a cash amount with a value equal to the next determined net asset value; and (c) that, when aggregated in the same specified minimum number, may be redeemed at a holder's request by such open-end investment company which will pay to the redeeming holder the stock and/or cash with a value equal to the next determined net asset value.

(b) Upon initial and throughout continued listing and trading of the Affiliate Security on the Exchange, the Exchange shall:

(1) provide a quarterly report to the Exchange's Regulatory Oversight Committee detailing the Exchange's monitoring of:

(A) the Affiliate's Securities compliance with the listing requirements; and

(B) the trading of the Affiliate Security, which shall include summaries of all related surveillance alerts, complaints, regulatory referrals, trades cancelled or adjusted pursuant to Rule 3312, investigations, examinations, formal and informal disciplinary actions, exception reports and trading data of such security.

(2) engage an independent accounting firm once a year to review and prepare a report on the Affiliate Security to ensure that the Affiliate Security is in compliance with the listing requirements and promptly provide PHLX's Regulatory Oversight Committee with a copy of the report prepared by the independent accounting firm.

(c) In the event that the Exchange determines that the Affiliate Security is not in compliance with any of the listing requirements the Exchange shall file a report with the Commission within five business days of providing notice to the issuer of its non-compliance. The report shall identify

the date of non-compliance, type of non-compliance and any other material information conveyed to the issuer in the notice of non-compliance. Within five business days of receipt of a plan of compliance from the issuer, the Exchange shall notify the Commission of such receipt, whether the plan of compliance was accepted by the Exchange or what other action was taken with respect to the plan and the time period provided to regain compliance within the listing standards, if any.

## **Rules 900A—996A Reserve**

### **OPTIONS RULES**

#### **Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies (Rules 1000—1098)**

##### **Rule 1000. Applicability, Definitions and References**

(a) **Applicability.** The Rules in this Part shall be applicable to the trading on the Exchange in option contracts issued by the Options Clearing Corporation, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific Rules in this Part govern or unless the context otherwise requires, the provisions of the By-Laws and of all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of option contracts.

(b) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified:

1. *The Options Clearing Corporation*—The term "The Options Clearing Corporation" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.
2. *Rules of the Options Clearing Corporation*—The term "rules of the Options Clearing Corporation" means the by-laws and the rules of the Options Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.
3. *Clearing Member*—The term "clearing member" means a member organization which has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.
4. *Participating Exchange*—The term "Participating Exchange" means a national securities exchange which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.
5. *Option Contract* —The term "option contract" means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the Rules of the Options Clearing Corporation.

6. *Exchange Options Transaction*—The term "Exchange options transaction" means a transaction effected on the Exchange between members for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.
7. *Type of Option*—The term "type of option" means the classification of an option contract as either a put or a call.
8. *Call*—The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing Corporation the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by the option contract.
9. *Put*—The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to the Options Clearing Corporation the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by the option contract.
10. *Class of Options*—The term "class of options" means all option contracts of the same type of option covering the same underlying stock or Exchange-Traded Fund Share (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency).
11. *Series of Options*—The term "series of options" means all option contracts of the same class of options having the same expiration date and exercise price.
12. *Underlying Stock*—The term "underlying stock" or "underlying Exchange-Traded Fund Share" in respect of an option contract means the security which the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.
13. *Foreign Currency*—The term "foreign currency" means the standard unit of the official medium of exchange of a sovereign government including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona, or the United States dollar) or the Euro.
14. *Professional*. The term "professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). Member organizations must indicate whether orders are for Professionals.



- (i) Calculation of Professional Orders. With respect to computing the number of orders in listed options per day on average during a calendar month for its own beneficial account(s), the following shall apply:
- (a) Each order is counted toward the number of orders, regardless of the options exchange to which the order was routed in determining Professional orders, except FLEX orders.
  - (b) A cancel and replace order which replaces a prior order shall be counted as a second order, or multiple new orders in the case of Complex Order comprising 9 options legs or more, including "single-strike algorithms." A cancel message is not an order. A series of cancel and replace orders in an individual strike, which track the NBBO, shall be counted as new orders.
  - (c) Complex Orders consisting of 8 legs or fewer will be counted as a single order, and respecting Complex Orders of 9 options legs or more, each leg will count as a separate order. Stock orders shall not count toward the number of legs.
  - (d) An order that converts into multiple subordinate orders to achieve an execution strategy shall be counted as one order per side and series, even if the order is routed away. An order that cancels and replaces the resulting subordinate order and results in multiple sides/series shall be counted as a new order per side and series. An order that cancels and replaces the subordinate order on the same side and series will count as one order. For purposes of counting Customer orders, if one Customer order on the same side and series is subsequently broken-up by a broker into multiple orders for purposes of execution or routed away, this order will count as one order.

15. *Unit of Underlying Foreign Currency*—The term "unit of underlying foreign currency" means a single unit of the foreign currency (e.g., one British pound, one Swiss franc, one Canadian dollar, one Australian dollar, one Japanese yen, one Mexican peso, one Euro, one Brazilian real, one Chinese yuan, one Danish krone, one New Zealand dollar, one Norwegian krone, one Russian ruble, one South African rand, one South Korean won, or one Swedish krona).

16. *Exchange Spot Price*—The term "Exchange Spot Price" in respect of an option contract on a foreign currency means the cash market spot price, for the sale of one foreign currency for another, quoted by various foreign exchange participants for the sale of a single unit of such foreign currency for immediate delivery that is calculated from the foreign currency price quotation reported by the foreign currency price quotation dissemination system selected by the Exchange, to which an appropriate multiplier is applied. The multiplier(s) will be: 100 for the British pound, the Euro, the Swiss Franc, the Canadian dollar, the Australian dollar, the Brazilian real, and the New Zealand dollar; 1,000 for the Chinese yuan, the Danish krone, the Mexican peso, the Norwegian krone, the South African rand, and the Swedish krona; 10,000 for the Japanese yen and the Russian ruble; and 100,000 for the South Korean won.

17. *Forward Sales Prices*—The term "forward sales prices" in respect of an option contract on a foreign currency means the prices, quoted by various interbank foreign exchange participants for the sale of a single unit of the underlying foreign currency for other than immediate delivery (which generally means delivery more than two business days following the date on which the terms of such a sale are agreed upon), as reflected in the foreign currency price quotations reported by the foreign currency price quotation dissemination system selected by the Exchange.

18. *Exercise Strike Price*—The term "exercise strike price" in respect of an option contract means the stated price per share at which the underlying stock or Exchange-Traded Fund Share may be purchased (in the case of a call option on a stock or Exchange-Traded Fund Share) or sold (in the case of a put option on a stock or Exchange-Traded Fund Share) or the stated price per unit at which the underlying foreign currency may be purchased (in the case of a call option on a foreign currency) or sold (in the case of a put option on a foreign currency), or, in the case of U.S. dollar-settled foreign currency option contracts, the stated price per unit which determines the differential received upon the exercise of such option contract.

19. *Aggregate Exercise Price*—The term "aggregate exercise price" means the exercise price of an option contract multiplied by the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by such option contract.

20. *Expiration Month*—The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

21. *Expiration Date*—In the case of options on stocks or Exchange-Traded Fund Shares, the expiration date is (i) in the case of such an option expiring prior to February 1, 2015, 11:59 p.m. Eastern Time, the Saturday immediately following the third Friday of the expiration month of such option contract and (ii) in the case of such an option expiring on or after February 1, 2015, 11:59 p.m. Eastern Time, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which such Exchange is open for business. Notwithstanding the foregoing, in the case of certain options expiring on or after February 1, 2015 that the Options Clearing Corporation ("OCC") has designated as grandfathered, the term "expiration date" shall mean the Saturday immediately following the third Friday of the expiration month. In the case of options on foreign currencies listed on or after June 13, 1993, the expiration date is 11:59 p.m. Eastern Time, on the Friday preceding the third Wednesday of the expiration month except in the following instances:

- (i) In the case where American style foreign currency options contracts are listed subsequent to the European style options contracts for the June and December 1994 series of foreign currency options;
- (ii) In the case of end of the month foreign currency option contracts listed on or after August 1, 1993, the expiration date is 11:59 p.m. Eastern Time on the last Friday of the expiration month; provided, however, that if the last Friday of the expiration month of

such option contracts is December 25th, then the term "expiration date" shall be the Friday immediately preceding December 25th, and if the last Friday of the expiration month of such option contracts is December 31st, then the term "expiration date" shall be the Friday immediately preceding December 24th.

(iii) In the case of U.S. dollar-settled foreign currency option contracts, the expiration date is (i) in the case of such an option expiring prior to February 1, 2015, 11:59 p.m. Eastern Time, the Saturday immediately following the third Friday of the expiration month of such option contract and (ii) in the case of such option expiring on or after February 1, 2015, 11:59 p.m. Eastern Time, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which the Exchange is open for business.

22. *Long Position*—The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

23. *Short Position*—The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

24. *Opening Purchase Transaction*—The term "opening purchase transaction" means an Exchange options transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

25. *Opening Writing Transaction*—The term "opening writing transaction" means an Exchange options transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

26. *Closing Sale Transaction*—The term "closing sale transaction" means an Exchange options transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

27. *Closing Purchase Transaction*—The term "closing purchase transaction" means an Exchange options transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

28. *Covered*—(i) The term "covered" in respect of a short position in a call option contract on a stock means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of rule 610(f) or 610(h), respectively, of the rules of the Options Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying stock or Exchange-Traded Fund Share, or in an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a call option contract on a foreign currency means that the writer's obligation is secured in any of the ways set forth in subparagraphs (H)(i), (H)(ii) or (H)(iii) of Rule 722 or the writer holds in the same account as the short position, on a unit-for-unit basis, a long position in

an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position.

(ii) The term "covered" in respect of a short position in a put option contract on a stock means that the writer holds in the same account as the short position on a share-for-share basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract on a foreign currency means that the writer's obligation is secured in the manner set forth in subparagraphs (H)(iv) or (H)(v) of Rule 722 or that the writer holds in the same account as the short position on a unit-for-unit basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

29. *Uncovered*—The term "uncovered" in respect of a short position in an option contract means that the short position is not covered.

30. *Outstanding*—The term "outstanding" in respect of an option contract means an option contract which has been issued by the Options Clearing Corporation and has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another Participating Exchange nor been exercised nor reached its expiration date.

31. *Primary Market*—The term "primary market" means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan.

32. *Options Trading*—The term "options trading" when not preceded by the word "Exchange," means trading in any option issued by the Options Clearing Corporation, whether or not of a class or series which has been approved for trading on the Exchange.

33. *Approved person*—an individual or corporation, partnership or other entity which controls a member or member organization, or which is engaged in the securities business and either controlled by or under common control with a member or member organization.

34. *American Option or American Style Option*. The term "American Option" or "American Style Option" means an option contract that may be exercised at any time from its commencement until its expiration.

35. *European Option or European Style Option*. The term "European Option" or "European Style Option" means an option contract that can be exercised only on the day it expires.

36. *Stock Index Group, Broad Stock Index Group and Industry Stock Index Group*. The terms "stock index group", "broad stock index group" and "industry stock index group" in respect of stock index warrants shall have the same meaning as in respect of stock index options.

37. *Stock Index Warrant*. The term "stock index warrant" means a warrant on a stock index group.

38. *Order Entry Firm or "OEF"*. An Order Entry Firm or "OEF" is a member organization that submits orders, as agent or principal, on the Exchange.

39. *Currency Index Group*. The term "currency index group" means a group of currencies each of whose inclusion and relative representation in the group is determined by its inclusion and relative representation in a currency index.

40. *Away Best Bid or Offer or ABBO*. The term "Away Best Bid or Offer" or "ABBO" shall mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer.

41. *Foreign Broker-Dealer*. The term "*foreign broker-dealer*" means any person or entity that is registered, authorized or licensed, or required to be by a foreign governmental agency or foreign regulatory organization to perform the function of a broker or a dealer in securities, or both. The terms "broker" or "dealer" mean the same as set out in Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934, as amended, provided that a broker or dealer may be a bank. For purposes of Rules 1014, Section , Section 34 and 1080, the term broker-dealer includes foreign broker-dealers, which are not Public Customers.

42. *Exchange-Traded Fund Share*. For purposes of these Rules, the term Exchange-Traded Fund Share shall have the meaning assigned to it in Rule 1009, Commentary .06.

43. *Quarterly Options Series*. The term "Quarterly Options Series" means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

44. *Short Term Option Series*. Short Term Option Series is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day and that expires on the Monday, Wednesday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

45. *System*. The term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises:

- (A) an order execution service that enables members to automatically execute transactions in System Securities; and provides members with sufficient monitoring and updating capability to participate in an automated execution environment;
- (B) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority ("OPRA") for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and
- (C) the data feeds described at Rule 1070.

(46) *System Securities*. The term "System Securities" shall mean all options that are currently trading on the System. All other options shall be "Non System Securities."

(47) *Order*. The term "Order" shall mean a single order submitted to the System by a member that is eligible to submit such orders.

(48) *System Book Feed*. The term "System Book Feed" shall mean a data feed for System securities.

(49) The term "Agency Order" shall mean any order entered on behalf of a public customer (which includes an order entered on behalf of a professional), and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest.

(50) *Off-Floor Broker-Dealer Order*. The term "Off-Floor Broker-Dealer Order" shall mean an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

(51) *Account Number*. An "**account number**" shall mean a number assigned to a member organization. Member organizations may have more than one account number.

(52) *In-the-Money*. The term "**in-the-money**" shall mean the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017.

(53) *Badge*. A "**badge**" shall mean an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges.

(54) *Out-of-the-Money*. The term "**out-of-the-money**" shall mean the following: for call options, all strike prices above the offer in the underlying security on the primary listing market; for put options, all strike prices below the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017.

(55) *Mnemonic*. A "**mnemonic**" shall mean an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

(56) *Public Customer*. Public Customer shall mean a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Phlx Rule 1000(b)(14).

(57) *Registered Options Trader or "ROT"*. A "Registered Options Trader" shall mean a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

(58) *Specialist*. A "Specialist" shall mean a member who is registered as an options Specialist pursuant to Rule 1020(a). A Specialist includes a Remote Specialist which is defined as a Specialist in one or more classes that does not have a physical presence on an Exchange's trading floor and is approved by the Exchange pursuant to Rule 501.

(59) *Streaming Quote Trader or SQT*. A Streaming Quote Trader or "SQT" is an Registered Options Trader who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the trading floor of the Exchange. An SQT may only submit quotes in classes of options in which the SQT is assigned.

(60) *Remote Streaming Quote Trader or RSQT*. A "Remote Streaming Quote Trader" or "RSQT" is an Registered Options Trader that is a member affiliated with an Remote Streaming Quote Trader Organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. An RSQT is also known as a Remote Market Maker ("RMM") pursuant to Rule 501. A Remote Streaming Quote Organization ("RSQTO") or Remote Market Maker Organization ("RMO") are Exchange member organizations that have qualified pursuant to Rule 507.

(61) *Non-Public Customer*. The term "Non-Public Customer" means a person or entity that is a broker or dealer in securities, or is a Professional.

(62) The term "**bid**" means a quote or limit order to buy one or more options contracts.

(63) The term "**offer**" means a quote or limit order to sell one or more options contracts.

(c) **References**. Exchange Contracts as defined in Rule 58 include option contracts purchased or sold in Exchange options transactions.

(d) **Local Time.** All times are stated in these Rules in terms of the local time in effect in New York City.

**Rule 1001. Position Limits**

(a) Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another participating exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that, as a result of such transaction, the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly control an aggregate position: (a) of more than 25,000, 50,000, 75,000, 200,000 or 250,000 option contracts (whether long or short), put or call option contracts on the same side of the market relating to the same underlying security, which limit is determined in accordance with section (g)(1)(a) herein, in the case of options on a stock or Exchange-Traded Fund Share, (except with respect to put or call option contracts overlying the PowerShares QQQ Trust ("QQQQ")® for which the position limit shall be 1,800,000 contracts on the same side of the market; options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") for which the position limit shall be 1,800,000 contracts on the same side of the market; options overlying the iShares® Russell 2000® ETF ("IWM"), for which the position limit shall be 1,000,000 contracts; options overlying the Diamonds Trust ("DIA"), for which the position limit shall be 300,000 contracts on the same side of the market; options overlying the iShares MSCI Emerging Markets ETF ("EEM"), for which the position limit shall be 1,000,000 contracts on the same side of the market; iShares China Large-Cap ETF ("FXI"), iShares MSCI EAFE ETF ("EFA"), iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), and iShares MSCI Japan ETF ("EWJ"), for each of which the position limit shall be 500,000 on the same side of the market; and options overlying the position limit shall be 500,000 on the same side of the market; and options overlying the Standard and Poor's Depositary Receipts ("SPDRs"), which shall have no position limits) or (b) with respect to a stock or Exchange-Traded Fund Share option not dealt in on the Exchange, exceeding the applicable position limit established by the exchange on which the option contract is transacted, when the member or member organization is not a member of that other exchange, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series. Position limits for foreign currency options shall be determined in accordance with section (j) herein.

(b) Reserved.

(c) It shall be the responsibility of each member and member organization accepting orders for opening transactions (purchase or writing) in options contracts of any class of options dealt in on the Exchange to inform their customers of the applicable position limits and not to accept any such orders from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such position limits.



**(d)** For the purpose of computing the aggregate position limits established by this Rule, long positions in call option contracts are aggregated with short positions in put option contracts and short positions in call option contracts are aggregated with long positions in put option contracts.

(i) Positions in option contracts overlying 10 shares of stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security ("Mini Options"), shall be aggregated with positions in regular size stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security option contracts, for purposes of this rule, provided that ten (10) Mini Option contracts shall count as one (1) regular size option contract.

**(e)** The Exchange will not approve any opening purchase or writing transaction or the carrying of any position that would exceed the limits established by this Rule except in highly unusual circumstances. An exemption will be granted to a member or member organization only under the following circumstances:

- (i) the exemption request must be submitted in writing to an Options Exchange Official and set forth the facts justifying the exemption;
- (ii) if the exemption is sought by a registered options trader, the registered options trader must hold an assignment in the option;
- (iii) the applicant's position must be near the current position limit (generally within 10% of the current limit); and
- (iv) the character of trading in the option has been such as to support an exemption request; the applicant's participation in the market in the period prior to the exemption request has been significant in terms of daily volume.

A position limit exemption requires the approval of an Options Exchange Official. The exemption is effective at the time a decision is communicated; retroactive exemptions will not be granted. The size and duration of an exemption will be determined on a case-by-case basis. An exemption usually will be granted only until the nearest expiration.

**(f) Specialists.** The Exchange may establish higher position limits for specialists' transactions than those applicable with respect to other accounts. Whenever a specialist reasonably anticipates that he may exceed such position limits in the performance of his function of assisting in the maintenance of a fair and orderly market, he must seek an exemption in writing in accordance with this Rule.

A position limit exemption requires the approval of an Options Exchange Official. The exemption is effective at the time a decision is communicated; retroactive exemptions will not be granted. The size and duration of an exemption will be determined on a case-by-case basis. An exemption usually will be granted only until the nearest expiration.

**(g) Equity Option Position Limits.**

- (i) The position limit shall be 250,000 contracts for options:
  - (a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 100,000,000 shares during the most recent six-month trading period; or
  - (b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding;
- (ii) The position limit shall be 200,000 contracts for options:
  - (a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 80,000,000 shares during the most recent six-month trading period; or
  - (b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 60,000,000 shares during the most recent six-month trading period and has at least 240,000,000 shares currently outstanding;
- (iii) The position limit shall be 75,000 contracts for options:
  - (a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 40,000,000 shares during the most recent six-month trading period; or
  - (b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 30,000,000 shares during the most recent six-month trading period and has at least 120,000,000 shares currently outstanding.
- (iv) The position limit shall be 50,000 contracts for options:
  - (a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 20,000,000 shares during the most recent six-month trading period; or
  - (b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 15,000,000 shares during the most recent six-month trading period and has at least 40,000,000 shares currently outstanding.
- (v) The position limit shall be 25,000 contracts for all other options.

**(h)** The Exchange will review the volume and outstanding share information of all underlying stocks and Exchange-Traded Fund Shares every six months to determine which limit shall apply. A higher limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher limit is met at the time of an intervening six-month review. However, if, subsequent to a six-month review, an increase in volume and/or outstanding shares would make a stock or Exchange-Traded Fund Share eligible for a higher position limit prior to the next review, the Exchange in its discretion may immediately increase such position limit.

(i) Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a purchase or sale transaction (whether on the Exchange or on or through the facilities of, or otherwise subject to the rules of, another national securities exchange or national securities association) in a stock index warrant if the member or member organization has reason to believe that as a result of such transaction the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly, control an aggregate position in a stock index warrant issue, or in all warrants issued on the same stock index, on the same side of the market, in excess of the position limits specified in sections (c) and (d).

**(j) Foreign Currency Option Position Limits**

(i) The position limit shall be 300,000 contracts for options on the following foreign currency: the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona,

(ii) The position limit shall be 600,000 contracts for options on the following foreign currency: the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, and the New Zealand dollar

(iii) The position limit shall be 1,200,000 contracts for options on the following foreign currency: the Euro.

(iv) However, if a foreign currency option (FCO or WCO) and a PHLX FOREX Option™ are listed on the same underlying currency (e.g. a Euro foreign currency option and a Euro PHLX FOREX Option), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

**(k)** Control exists, under Rules 1001 and 1002, when it is determined that an individual or entity (1) makes investment decisions for an account or accounts, or (2) materially influences directly or indirectly the actions of any person who makes investment decisions.

(a) In addition, control will be presumed in the following circumstances:

(1) among all parties to a joint account who have authority to act on behalf of the account;

(2) among all general partners to a partnership account;

(3) when an individual or entity (1) holds an ownership interest of 10 percent or more in an entity (ownership interest of less than 10 percent will not preclude aggregation), or (2) shares in 10 percent or more of profits and/or losses of an account;

- (4) when accounts have common directors or management;
  - (5) where a person or entity has the authority to execute transactions in an account;
- (b) Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. The Exchange will also consider the following factors in determining if aggregation of accounts is required:
- (1) similar patterns of trading activity among separate entities;
  - (2) the sharing of kindred business purposes and interests;
  - (3) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;
  - (4) the degree of contact and communication between directors and/or managers of separate accounts.
- (c) Initial determinations under this Interpretation shall be made by Regulatory staff of the Exchange. A member or customer directly affected by such a determination may ask the Exchange to reconsider but may not request any other review or appeal, except in the context of a disciplinary proceeding.

**(l) Equity Option Hedge Exemptions.** The following qualified hedge transactions and positions described in paragraphs 1-5 below shall be exempt from established position limits as prescribed under sections (g) and (d)(i) above. Hedge transactions and positions established pursuant to paragraphs (6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under sections (g) and (d)(i).

- (1) Where each option contract is "hedged" or "covered" by 100 shares (10 shares in the case of a Mini Option) of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract the same number of shares represented by the adjusted contract; (i) long call and short stock; (ii) short call and long stock; (iii) long put and long stock; (iv) short put and short stock.
- (2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("reverse conversion").
- (3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long put is equal and where

each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("conversion").

- (4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time of the position is established ("collar").
- (5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established ("reverse collar").
- (6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").
- (7) A listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.
- (8) For those strategies described under (2), (3), and (4) above, one component of the option strategy may be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.
- (9) An OTC option contract is defined as an option contract that is not listed on a National Securities Exchange or cleared at The Options Clearing Corporation.

**(m) Firm Facilitation Exemption.** A member organization may be exempt from established position limits for equity option positions (including Exchange-Traded Fund Share option positions) held in its proprietary account where such position will facilitate an order for a customer of that member organization, provided that such position satisfies the following:

- (i) *Maximum limit:* the facilitating position may exceed the applicable position limit by two times that limit, in addition to the allowable amount. For example, where the position limit is 25,000 contracts, a firm facilitation exemption is available for an additional 50,000 contracts. This exemption is in addition to any other exemptions available under Exchange Rules.

- (ii) *Approval Procedure*: prior approval from an Options Exchange Official and the submission of a complete Firm Facilitation Form, which must be kept current, are required. Approval may be granted on the basis of verbal representations, in which case the member organization shall submit to the Regulatory staff of the Exchange a completed form respecting such approval within two business days or the time specified when approval is granted. A member organization may request an exemption based on interest expressed by its customer, prior to obtaining an order. This exemption is not available where either the customer or facilitation order are all or none or fill or kill orders.
- (a) The facilitation firm shall promptly provide the Exchange with information or documents requested concerning the exempted and hedging positions. A copy of all applicable order tickets must be provided to the Regulatory staff of the Exchange on the day of execution.
- (b) The facilitation firm shall establish and liquidate its own as well as its customer's option, stock and Exchange-Traded Fund Share positions in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes nor with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The facilitation firm shall notify the Exchange of any material change in the exempted option position or hedge. The facilitation firm shall not increase the exempt option position once it is liquidated, unless prior approval is again received pursuant to this Rule.
- (iii) *Facilitation Procedure*: compliance with the facilitation procedures of Options 8, Section 30(b) is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate. is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate.
- (iv) *Hedge*: to remain qualified, the facilitation firm must hedge all exempt option positions within five business days after the execution of the order and furnish the Exchange's Regulatory staff with documentation reflecting the resulting hedged positions.
- (v) Violations of these requirements, absent reasonable justification or excuse, shall result, in addition to any disciplinary action, in withdrawal of the exemption and may form the basis for subsequent denial of an application for an exemption hereunder.

**(n) Delta-Based Equity Hedge Exemption.** The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules, interpretations and policies.

- (i) An equity option position of a member or non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed in this Rule 1001, subject to the following:

- (a) The term "delta neutral" refers to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.
- (1) In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments as defined in Exchange Rule 1001(A) Commentary .04(A), in accordance with Rule 1001A - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.
- (b) An equity option position that is not delta neutral shall be subject to position limits in accordance with this Rule 1001 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit.
- (1) The term "options contract equivalent of the net delta" means the net delta divided by the number of shares that equate to one option contract on a delta basis.
- (2) The term "net delta" means, at any time, the number of shares and/or units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.
- (c) A "permitted pricing model" means -
- (1) A pricing model maintained and operated by The Options Clearing Corporation ("OCC Model");
- (2) A pricing model maintained and used by a member subject to consolidated supervision by the Commission pursuant to Appendix E of Commission rule 15c3-1, or by an affiliate that is part of such member's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEC rule 15c3-1 and SEC rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such member's consolidated supervised holding company group;
- (3) A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company

Act of 1956, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:

- (i) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or
  - (ii) the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;
- (4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC rule 15c3-1 and SEC rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a member) may rely on this subparagraph (c)(4); or
- (5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a member) may rely on this subparagraph (c)(5).
- (d) Effect on Aggregation of Accounts
- (1) Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such member or non-member affiliate.



- (2) Notwithstanding subparagraph (d)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that:
    - (i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in section (k) to this Rule 1001; and
    - (ii) the entity has provided the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.
  - (3) Notwithstanding subparagraph (d)(1) or (d)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange, each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:
    - (i) the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and
    - (ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate.
- (e) Obligations of Members and Affiliates
- (1) A member that relies on this exemption for a proprietary equity options position:
    - (i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (c) in this Rule 1001; and
    - (ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

- (2) The equity option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.
- (3) A member carrying an account that includes an equity option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member:
  - (i) a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (c) in this Rule 1001; and
  - (ii) a written statement confirming that such non-member affiliate:
    - (a) is relying on this exemption;
    - (b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;
    - (c) will promptly notify the member if it ceases to rely on this exemption;
    - (d) authorizes the member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and
    - (e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the Exchange such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.
- (f) Reporting.

Each member (other than an Exchange market-maker using the OCC model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 1003, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to section (n)(1)(d) herein shall also report, in accordance with Rule 1003, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule 1001, the net delta and the options contract equivalent of the net delta of such position.

- (g) Records.

Each member relying on this exemption shall:

- (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and
- (ii) produce such information to the Exchange upon request.

**(o) Exemptions Granted by Other Options Exchanges.** A member may rely upon any available exemptions from applicable position limits granted from time to time by another options exchange for any options contract traded on the Exchange provided that such member:

- (1) provides the Exchange with a copy of any written exemption issued by another options exchange or a written description of any exemption issued by another options exchange other than in writing containing sufficient detail for Exchange Regulatory staff to verify the validity of that exemption with the issuing options exchange, and
- (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the member's trading on the Exchange.

#### **Rule 1002. Exercise Limits**

**(a)** Except as set forth in subparagraph (c) herein, no member or member organization shall exercise, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract of a class of options dealt in on the Exchange (or, respecting an option not dealt in on the Exchange, another exchange if the member or member organization is not a member of that exchange) if as a result thereof such member or member organization, or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that class (put or call) as set forth as the position limit in Rule 1001, in the case of options on a stock or on an Exchange-Traded Fund Share, on a foreign currency, or stock index warrants; without regard to the exchange on which the options were purchased. Whether option or warrant positions should be aggregated under this Rule shall be determined in the manner described in the Commentary to Exchange Rule 1001. Index option position and exercise limits are governed by Rules 1001A and 1002A.

**(b)** It shall be the responsibility of each member and member organization accepting orders for the purchase (in opening transactions) of option contracts of a class of options dealt in on the Exchange to inform their customers of the applicable exercise limits and not to accept any exercise of an option contract from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such exercise limits.

**(c)** For a member or a member organization that has been granted an exemption to position limits pursuant to Rule 1001(l)(Equity Option Hedge Exemptions) or Rule 1001(n)(Delta-Based Equity Hedge Exemption), the number of contracts which can be exercised over a five (5) business day period shall equal the member's or member organization's exempted position.

(d) The Exchange may establish different limits from time to time either across the board for all underlying securities or underlying foreign currencies covered by options traded in the Exchange or in respect to particular classes.

### **Rule 1003. Reporting Of Options Positions**

(a) Each member and member organization shall file with the Exchange a report with respect to each account in which the member or member organization has an interest, each account of a partner, officer, director, or employee of such member organization, and each customer account, acting alone, or in concert with others, which has established an aggregate position of 200 or more option contracts (whether long or short) of a put class and call class on the same side of the market covering the same underlying security, in the case of options on a stock or Exchange-Traded Fund Share, or an aggregate position of 2,500 or more option contracts (whether long or short) of a put class and call class on the same side of the market covering the same underlying foreign currency in the case of options on a foreign currency, or an aggregate position of 100,000 or more warrants (whether long or short) covering the same underlying security in the case of warrants on stock indexes, currency, or currency indexes, combining for purposes of this Rule (i) long positions in put options with short positions in call options, and (ii) short positions in put options with long positions in call options. The report shall be in such form as may be prescribed by the Exchange and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred. Whenever a report shall be required to be filed with respect to an account pursuant to this paragraph, the member or member organization filing the same shall file with the Exchange such additional periodic reports with respect to such account as the Exchange may from time to time prescribe.

(b) In addition to the reporting requirement described in paragraph (a) of this Rule, each member (other than an Exchange market maker) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such positions are hedged, and provide documentation as to how such contracts are hedged, in a manner and form prescribed by the Exchange. For the purposes of this Rule, the term market maker is a Registered Option Trader or specialist. For the Nasdaq-100 Index Tracking Stock ("QQQ")® options, once the 10,000 contract reporting threshold of this paragraph is met, the Exchange will require members (other than an Exchange market maker) to report each increase of 2,500 contracts on the same side of the market for the account of a customer and each increase of 5,000 contracts on the same side of the market for proprietary accounts. In addition, whenever the Exchange determines, based on a report to the Regulatory staff or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under-hedged Non-FLEX equity option position in excess of 10,000 contracts on the same of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 722d. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) In addition to the reports required by paragraph (a) of this Rule, each member and member organization shall report promptly to the Exchange any instance in which such member or

member organization has reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits prescribed pursuant to Rule 1001 or the exercise limits prescribed pursuant to Rule 1002.

(d) Upon the request of the Exchange, a member and member organization shall file with the Exchange a report reflecting the aggregate uncovered short positions in each series of options dealt in on the Exchange in (i) each account in which the member or member organization has an interest, (ii) all accounts of partners, principal executive officers and directors of such member organization and (iii) all accounts of customers. Such report shall be made by the second business day following the date the request is made.

••• *Commentary:* -----

**.01** A clearing member organization which clears Exchange options transactions for another member organization in a single omnibus account, need not file the reports specified in this Rule with respect to positions in such account provided the member organization whose Exchange options transactions are cleared through such omnibus account files the reports required by this Rule. However, a clearing member organization which clears Exchange option transactions for a non-member in a single omnibus account must file the reports required by this Rule.

**.02** A member organization shall not be required to file the reports specified in this Rule with respect to positions in the accounts of specialists or specialist units and registered options traders cleared by such member organization provided such positions are reported pursuant to Rule 1022.

**.03** All reports required by this Rule shall be filed with the Exchange, on forms prescribed by the Exchange.

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**Rule 1004. Liquidation Of Positions**

Whenever the Exchange shall determine that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts of one or more classes or series dealt in on the Exchange in excess of the applicable position limit established pursuant to Rule 1001, it may direct all members and member organizations carrying a position in option contracts of such classes or series for such person or persons to liquidate such position as expeditiously as possible consistent with the maintenance of an orderly market. Whenever such a direction is issued by the Exchange, no member organization receiving notice thereof shall accept any order to purchase, sell or exercise any option contract for the account of the person or persons named in such directive, unless in each instance express approval therefore is given by the Exchange, or until such directive is rescinded.

**Rule 1005. Limit On Uncovered Short Positions**

Whenever the Exchange shall determine in light of current conditions in the Exchange options market or in the markets for underlying stocks, Exchange-Traded Fund Shares or foreign currencies, as the case may be, that there are outstanding an excessive number of uncovered short positions in option contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given class dealt in on the Exchange are uncovered, the Exchange may prohibit any further opening writing transactions (whether on the Exchange or on another Participating Exchange) in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class, as it deems appropriate in the interests of maintaining a fair and orderly market in such option contracts or in the underlying stocks or Exchange-Traded Fund Shares (in the case of options on stocks or Exchange-Traded Fund Shares), or otherwise deems advisable in the public interest or for the protection of investors. The Exchange may exempt transactions of specialists from restrictions imposed under this Rule and it shall rescind such restrictions upon its determination that they are no longer appropriate.

**Rule 1006. Other Restrictions on Exchange Options Transactions and Exercises**

(a) Phlx may impose such restrictions on transactions or exercises in one or more series of options of any class traded on Phlx as the Exchange's Regulation Department in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

- i. During the effectiveness of such restrictions, no member or member organization shall, for any account in which it has an interest or for the account of any customer, engage in any transaction or exercise in contravention of such restrictions.
- ii. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, no restriction on exercise under this Section may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.
- iii. Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:
  - 1) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the Rules of The Options Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by Phlx Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

- 2) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of an option contract expiring on a day that is not a business day, the last business day prior to their expiration;
- 3) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt pursuant to the procedures described in Rules 1047 and 1047A, exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (a)(iii)(3) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and
- 4) Phlx may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

(b) Whenever the issuer of a security underlying a call option traded on Phlx is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that Phlx impose restrictions upon all opening writing transactions in such options at a "discount" where the resulting short position will be uncovered ("uncovered opening writing transactions").

- i. In addition to a request, the following conditions are necessary for the imposition of restrictions:
  - 1) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;
  - 2) the underwriters agree to notify Phlx Regulation upon the termination of their stabilization activities; and
  - 3) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a "minus" or "zero minus" tick.
- ii. Upon receipt of such a request and determination that the conditions listed above are met, Phlx Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after members or member organizations shall have been notified and shall terminate such restrictions upon request of the underwriters or when Phlx Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

iii. For purposes of paragraph (b) of this Rule, an uncovered opening writing transaction in a call option will be deemed to be effected at a "discount" when the premium in such transaction is either:

- 1) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option; or
- 2) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

**Rule 1007. Designation Of Securities**

Stock or Exchange-Traded Fund Share option contracts purchased and sold on the Exchange are designated by reference to the issuer of the underlying security, expiration month, exercised price and type (put or call). Foreign currency option contracts purchased and sold on the Exchange are designated by reference to the underlying foreign currency (e.g., the British pound), expiration month, exercise price and type (put or call).

**Rule 1008. Rights And Obligations Of Holders And Writers**

(a) Subject to the provisions of Rules 1001, 1002, 1004 and 1006, the rights and obligations of holders and writers of option contracts of any class of options dealt in on the Exchange shall be as set forth in the rules of the Options Clearing Corporation.

**Rule 1009. Criteria for Underlying Securities**

(a) Underlying securities in respect of which put or call option contracts are approved for listing and trading on the Exchange must meet the following criteria:

- (1) The security must be duly registered and be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934;
- (2) the security shall be characterized by a substantial number of outstanding shares which are widely held and actively traded.

(b) In addition, the Board of Directors shall from time to time establish guidelines to be considered by the Exchange in evaluating potential underlying securities for Exchange option transactions. There are, however, many relevant factors which must be considered in arriving at such a determination. The fact that a particular security may meet the guidelines established by the Board does not necessarily mean that it will be approved as an underlying security. Further, in exceptional circumstances an underlying security may be approved by the Exchange even though it does not meet all of the guidelines. The Exchange may also give consideration to maintaining diversity among various industries and issuers in selecting underlying securities.



(c) The British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the U.S. dollar, the Mexican peso, the Euro, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona may be approved as underlying foreign currencies for options transactions by the Exchange, subject to any approval criteria the Exchange may deem necessary or appropriate in the interests of maintaining a fair and orderly market or for the protection of investors. In the event that any of the sovereign governments or the European Economic Community's European Monetary System issuing any of the above-mentioned currencies should issue a new currency intended to replace one of the above-mentioned currencies as the standard unit of the official medium of exchange of such government, such new currency also may be approved as an underlying foreign currency for options transactions by the Exchange, subject to any approval criteria the Exchange may deem necessary or appropriate in the interests of maintaining a fair and orderly market or for the protection of investors. Options trading in such new currency may occur simultaneously with options trading in any of the above-mentioned currencies; provided, however, that the Exchange shall withdraw its approval of options transactions in the currency which is intended to be replaced by such new currency as expeditiously as it deems consistent with the maintenance of a fair and orderly market or the protection of investors.

••• *Commentary:* -----

**.01** The Board of Directors has established guidelines to be considered by the Exchange in evaluating potential underlying securities for Exchange option transactions. Absent exceptional circumstances with respect to items 1, 2, 3, or 4 listed below, at the time the Exchange selects an underlying security for Exchange options transactions, the following guidelines with respect to the issuer shall be met:

- (1) There are a minimum of 7,000,000 shares of the underlying security which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Securities Exchange Act of 1934.
- (2) There are a minimum of 2,000 holders of the underlying security.
- (3) Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve months.
- (4)
  - (i) If the underlying security is a "covered security" as defined in Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous three (3) consecutive business days preceding the date on which the Exchange submits a certificate to the Options Clearing Corporation for listing and trading. For purposes of this Rule, the market price of such underlying security is measured by the closing price reported in the primary market in which the underlying security is traded.

- (ii) If the underlying security is not a "covered security," the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days.
- (5) The issuer is in compliance with any applicable requirements of the Securities Exchange Act of 1934.
- (6) Notwithstanding the requirements set forth in Paragraphs 1 through 4 above, the Exchange may list and trade an options contract if:
- (i) the underlying security meets the guidelines for continued listing in Rule 1010; and
  - (ii) options on such underlying security are listed and traded on at least one other national securities exchange.
- .02** (a) Members, member organizations or any person proposing to list any option not currently listed on the Exchange shall submit a form of request (a "Request to List an Option"), available from the Exchange's "designated staff" or "designated department" (together "the designated department").
- (b) As soon as practicable, but not later than three (3) business days following receipt of the Request to List an Option, the designated department shall review the proposed option's eligibility for listing, using the objective listing criteria set forth in Commentary .01 of this Rule. If the designated department determines that the proposed option does not meet the objective listing criteria set forth in Commentary .01 of this Rule, the designated department shall prepare a responsive form (a "Notification Memorandum") stating the reason(s) why the proposed option is not eligible for listing. The designated department shall forward the Notification Memorandum to the member or member organization that submitted the Request to List an Option within three (3) business days of its determination that the proposed option does not meet objective listing criteria. The designated department shall maintain all Requests to List an Option and Notification Memoranda in a central file for a period of not less than five (5) years.
- (c) If the designated department determines that the proposed option meets the objective listing criteria set forth in Commentary .01 of this Rule, the designated department shall present the initial Request to List an Option and the subsequent review to the Chairman of the Board of Directors or his designee, who shall, within ten (10) business days of receipt of the Request to List an Option, instruct the designated department to: If the designated department determines that the proposed option meets the objective listing criteria set forth in Commentary .01 of this Rule, the designated department shall present the initial Request to List an Option and the subsequent review to the Chairman of the Board of Directors or his designee, who shall, within ten (10) business days of receipt of the Request to List an Option, instruct the designated department to:

- (i) solicit options specialists to submit applications for specialist privileges in the option;  
or
  - (ii) within three (3) business days, prepare and forward a letter to the member or member organization that submitted the Request to List an Option, setting forth in reasonable detail the basis on which the decision not to list, **or to place limitations or conditions upon**, the proposed option was made.
- (d) In considering underlying securities, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which the security is traded.
- (e) In determining whether to list an option that otherwise meets objective listing criteria, the Chairman of the Board of Directors or his designee may consider such factors as the Exchange's current and projected computer capacity, and the current and projected demands for that capacity, including telecommunications and Option Price Reporting Authority ("OPRA") inbound and outbound message capacity or message volume restrictions placed on the Exchange by OPRA; the projected likely number of series and open interest in the option; the projected likely volatility of the option; the projected likely liquidity of the option; name recognition of the option or underlying security; the projected volume of trading in the option that is likely to occur on the Exchange; the projected share of total trading in the option that is likely to occur at the Exchange; whether any intellectual property right or license thereof exists with respect to the option; whether the proposal is consistent with Exchange Rules and/or the Securities Exchange Act of 1934 and the rules, regulations, and orders thereunder; whether unusual or unfavorable market conditions exist with respect to the option; and whether it is in the *bona fide* business interest of the Exchange to list the option. **If, in denying a request or approving a request subject to conditions or limitations, the Exchange relies upon a factor of other bona fide business interests, the Exchange shall, in addition to providing the member with a written response specifying that the Exchange has relied upon other bona fide business interests, maintain a record of the bona fide business interests supporting its decision.**

**.03** As used both in Rules 1009 and 1010, the word "security" may be broadly interpreted to mean any equity security as defined in Rule 3a11-1 promulgated under the Securities Exchange Act of 1934, which is appropriate for options trading. The word "shares" shall mean the unit of trading of such security. The Exchange deems that American Depositary Receipts ("ADRs") and non-convertible preferred stock which meet the criteria set forth in this Rule are appropriate for options trading and in the case of options on an ADR, (i) the Exchange has in place, an effective surveillance agreement with the primary exchange in the home country where the security underlying the ADR is traded or (ii) the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share equivalent basis) at least 50% of the

combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (together, "other related ADRs and securities") over the three month period preceding the date of selection of the ADR for options trading; or (iii) (a) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where the Exchange has in place an effective surveillance agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three month period preceding the date of selection of the ADR for options trading, (b) the average daily trading volume for the security in U.S. markets over the three months preceding the selection of the ADR for options trading is 100,000 or more shares, and (c) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three months preceding the date of selection of the ADR for options trading ("Daily Trading Volume Standard"), or (iv) the Securities and Exchange Commission has otherwise authorized the listing.

**.04** Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and guidelines set forth above and either (i) the Exchange has a market information sharing agreement with the primary exchange for each of the securities held by the fund; or (ii) the International Fund is classified as a diversified fund as that term is defined by Section 5(b) of the Investment Company Act of 1940 and the securities held by the fund are issued by issuers based in five or more countries. A "market information sharing agreement" for purposes of this Commentary is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund including the identity of the member of a foreign exchange executing the trade. International Funds not meeting either (i) or (ii) above shall be deemed appropriate for options trading if the Commission specifically authorizes the listing.

**.05** (a) In determining whether an equity security (the "restructure security") issued or anticipated to be issued in a spin-off, reorganization, recapitalization, restructuring, or similar corporate transaction (a "restructuring transaction") satisfies the guidelines set forth in paragraphs (3) and (4) of Commentary .01 above, the Exchange may rely on the trading volume and market price history of the related equity security in respect of which the restructure security was or is to be issued (the "original security") determined prior to the ex-date for the restructuring transaction, but only if (i) both the trading volume and the market price history of the original security are used for this purpose for any trading

days when either is so used, (ii) once the Exchange commences to rely on the trading volume and market price history of the restructure security for any trading day, the Exchange may not rely on the trading volume and market price history of the original security for any trading day thereafter, and (iii) at least one of the following conditions is met:

- (1) At least one of (i) the aggregate market value of the restructure security, (ii) the aggregate book value of the assets attributed to the business represented by the restructure security, or (iii) revenues attributed to the business represented by the restructure security is no less than the relevant percentage of the same measure determined with respect to the original security or the business represented by the original security, as applicable, calculated in a comparable manner, provided that in the case of the qualification of a restructure security under clause (ii), the aggregate book value of the assets attributed to the business represented by the restructure security is not less than \$50 million, and in the case of the qualification of a restructure security under clause (iii), the revenues attributed to the business represented by the restructure security are not less than \$50 million. For purposes of the foregoing sentence, the relevant percentage is 25% when the applicable measure determined with respect to the original security or the business it represents reflects the *inclusion* of the business represented by the restructure security, and the relevant percentage is 33 1/3% when the applicable measure determined with respect to the original security or the business it represents reflects the *exclusion* of the business represented by the restructure security.
- (2) The aggregate market value represented by the shares of the restructure security is at least five hundred million dollars (\$500,000,000).

For purposes of the foregoing, (i) aggregate market value of the shares of the restructure security may be determined from "when issued" prices, if available; (ii) comparative aggregate market value calculations shall be based upon share prices that are all either (a) closing prices in the primary market on the last business day preceding the selection date of the restructure security or (b) opening prices in the primary market on the selection date of the restructure security; and (iii) comparative asset values and revenues shall be derived from either the latest annual or most recently available interim (not less than three months) financial statements of the issuer, which may be audited or unaudited or *pro forma*.

- (b) Option contracts may not be initially listed for trading on a restructure security until such time as shares of the restructure security are issued and outstanding and are the subject of trading that is not on a "when issued" basis or in some similar fashion that is not contingent on the shares being issued, distributed, redesignated or created.
- (c) In certifying a restructure security for options trading, the Exchange may determine that the requirements of paragraphs (1) and (2) of Commentary .01 above are satisfied based on the facts and circumstances that will exist on the intended date for listing the option rather than at the time the restructure security is so selected. In the case of a transaction within the scope of this Commentary .05 in which shares of a restructure security are issued or distributed to the holders of shares of an original security, this determination

may either be based on the public ownership and number of shareholders of the original security, or the Exchange may assume that one or both of these requirements will be satisfied if either of the following conditions is met on the date the restructure security is selected for options trading: (i) the restructure security will be listed on an exchange or automatic quotation system subject to initial listing requirements in respect of public ownership of shares of number of shareholders or both that are no less stringent than the requirements assumed to be satisfied, or (ii) at least 40,000,000 shares of the restructure security will be issued and outstanding on the intended date for listing the option, unless in the case of (i) or (ii) above, the Exchange, after reasonable investigation, has determined that such requirements will in fact not be satisfied on that date. Any determination by the Exchange that such requirements will be satisfied based on an assumption made pursuant to this paragraph is subject to the right of any objecting exchange to demonstrate that such requirements will in fact not be satisfied.

- (d) In the case of a Restructured Transaction that satisfies either or both of the conditions of subparagraphs (a)(1) or (2) above in which shares of the restructure security are sold in a public offering or pursuant to a rights distribution: (i) the Exchange may assume the satisfaction of one or both of the requirements of paragraph (1) and (2) of Commentary .01 above on the date the restructure security is selected for options trading only if (A) the applicable conditions set forth in paragraph (c)(i) above are met with respect to whichever of these requirements is assumed to be satisfied, or (B) the condition set forth in paragraph (c)(ii) above is met, in either case subject to the limitations stated in said paragraph (c); (ii) the Exchange may certify that the market price of the restructure security satisfies the requirement of paragraph (4) of Commentary .01 above by relying on the market price history of the original security prior to the ex-date for the Restructure Transaction in the manner described in paragraph (a) above, but only if the restructure security has traded "regular way" on an exchange or automatic quotation system for at least five trading days immediately preceding the date of selection, and at the close of trading on each trading day preceding the date of selection, as well as at the opening of trading on the date of selection the market price of the restructure security was at least \$7.50 or, if the restructure security is a "covered security" as defined in paragraph (4) of Commentary .01 above, the market price of the restructure security was at least \$3.00; and (iii) the Exchange may certify that the trading volume of the restructure security satisfies the requirement of paragraph (3) of Commentary .01 above only if the trading volume in the restructure security has been at least 2,400,000 shares during a period of 12 months or less ending on the date the restructure security is selected for options trading.

**.06** Securities deemed appropriate for options trading shall include share or other securities ("Exchange-Traded Fund Shares"), including but not limited to Partnership Units as defined in Commentary .08 to Rule 1009, that are principally traded on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, and that (i) represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or a similar entity which holds securities and/or financial instruments

including, but not limited to, stock index futures contracts, options on futures, options on securities and indexes, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the "Financial Instruments"), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the "Money Market Instruments") constituting or otherwise based on or representing an investment in an index or portfolio of securities and/or Financial Instruments and Money Market Instruments, or (ii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and /or non-U.S. currency ("Commodity Pool ETFs") or (iii) represent interests in a trust or similar entity that holds a specified non-U.S. currency or currencies deposited with the trust or similar entity when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust ("Currency Trust Shares"), or (iv) represent interests in SPDR Gold Trust, iShares COMEX Gold Trust, iShares Silver Trust, or ETFS Gold Trust ("SGOL") provided:

(a)

- (i) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Commentary .01 to this Rule 1009; or (ii) The Exchange-Traded Fund Shares must be available for creation or redemption each business day in cash or in kind from the investment company, commodity pool or other entity at a price related to the net asset value. In addition, the investment company, commodity pool or other entity shall provide that fund shares may be created even though some or all of the securities and/or cash needed to be deposited have not been received by the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the shares and/or cash as soon as possible and such undertaking has been secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the fund which underlies the option as described in the fund or unit trust prospectus; and

(b) The Exchange-Traded Fund Shares meet the following criteria:

- (i) The Fund Shares are listed pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes, in which case a comprehensive surveillance agreement is not required; or

- (ii) (A) any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;
  - (B) stocks for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index; and
  - (C) stocks for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.
- (iii) For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.
  - (iv) For Currency Trust Shares, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non-U.S. currency, which are utilized by the national securities exchange where the underlying Currency Trust Shares are listed and traded.
- .07** Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:
- (a)
    - (i) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Commentary .01 to this Rule 1009; or
    - (ii) the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and
  - (b) not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.



**.08** The term "Partnership Units" means a security (a) that is issued by a partnership that invests in any combination of futures contracts, options on futures contracts, forward contracts, commodities (as defined in Section 1(a)(4) of the Commodity Exchange Act) and/or securities; and (b) that is issued and redeemed daily in specified aggregate amounts at net asset value.

**.09** Index-Linked Securities

- (a) Securities deemed appropriate for options trading shall include shares or other securities ("Equity Index-Linked Securities," "Commodity-Linked Securities," "Currency-Linked Securities," "Fixed Income Index-Linked Securities," "Futures-Linked Securities," and "Multifactor Index-Linked Securities," collectively known as "Index-Linked Securities") that are principally traded on a national securities exchange and an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934), and represent ownership of a security that provides for the payment at maturity, as described below:
- (i) Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an underlying index or indexes of equity securities ("Equity Reference Asset");
  - (ii) Commodity-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more physical commodities or commodity futures, options on commodities, or other commodity derivatives or Commodity-Based Trust Shares or a basket or index of any of the foregoing ("Commodity Reference Asset");
  - (iii) Currency-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more currencies, or options on currencies or currency futures or other currency derivatives or Currency Trust Shares (as defined in Commentary .06 to this Rule 1009), or a basket or index of any of the foregoing ("Currency Reference Asset");
  - (iv) Fixed Income Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing ("Fixed Income Reference Asset");

- (v) Futures-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an index or indexes of futures contracts or options or derivatives on futures contracts ("Futures Reference Asset"); and
  - (vi) Multifactor Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of any combination of two or more Equity Reference Assets, Commodity Reference Assets, Currency Reference Assets, Fixed Income Reference Assets, or Futures Reference Assets ("Multifactor Reference Asset");
- (b) For purposes of Commentary .09 to this Rule 1009, Equity Reference Assets, Commodity Reference Asset, Currency Reference Assets, Fixed Income Reference Assets, Futures Reference Assets together with Multifactor Reference Assets, collectively will be referred to as "Reference Assets."
- (c) (i) The Index-Linked Securities must meet the criteria and guidelines for underlying securities set forth in Commentary .01 to this Rule 1009; or
- (ii) the Index-Linked Securities must be redeemable at the option of the holder at least on a weekly basis through the issuer at a price related to the applicable underlying Reference Asset. In addition, the issuing company is obligated to issue or repurchase the securities in aggregation units for cash, or cash equivalents, satisfactory to the issuer of Index-Linked Securities which underlie the option as described in the Index-Linked Securities prospectus.
- (d) The Exchange will implement surveillance procedures for options on Index-Linked Securities, including adequate comprehensive surveillance sharing agreements with markets trading in non-U.S. components, as applicable.

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**Rule 1010. Withdrawal of Approval of Underlying Securities or Options**

(a) Whenever the Exchange determines that an underlying security previously approved for Exchange option transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange shall not open for trading any additional series of options of the class covering that underlying security and may therefore prohibit any opening purchase transactions in series of options of that class previously opened (except that (i) opening transactions by Market Makers executed to accommodate closing transactions of other market participants and (ii) opening transactions by member organizations to facilitate the closing transactions of Public Customers executed as crosses pursuant to and in accordance with Options 8, Section 30(b) may be permitted), to the extent it shall deem such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with the Exchange's current approval maintenance requirements, regarding number of publicly held shares of publicly held principal amount, number of shareholders, trading volume or market price the Exchange may, in the interest of

maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of option contracts of the class covering that underlying security. When all option contracts in respect of any underlying security that is no longer approved have expired, the Exchange may make application to the Securities and Exchange Commission to strike from trading and listing all such option contracts.

••• *Commentary:* -----

**.01** The Board of Directors has established guidelines to be considered by the Exchange in determining whether an underlying security previously approved for Exchange option transactions no longer meets its requirements for the continuance of such approval. Absent exceptional circumstances, with respect to items 1, 2, or 3 listed below, an underlying security will not be deemed to meet the Exchange's requirements for continued approval whenever any of the following occur:

1. There are fewer than 6,300,000 shares of the underlying security held by persons other than those who are required to report their security holdings under Section 16(a) of the Securities Exchange Act of 1934.
2. There are fewer than 1,600 holders of the underlying security.
3. The trading volume (in all markets in which the underlying security is traded) was less than 1,800,000 shares in the preceding twelve months.
4. Reserved.
5. The underlying security ceases to be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934.
6. If an underlying security is approved for options listing and trading under the provisions of Commentary .05 of Rule 1009, the trading volume of the original security (as therein defined) prior to but not after the commencement of trading in the restructure security (as therein defined), including "when issued" trading, may be taken into account in determining whether the trading volume requirement of paragraph (3) of this Commentary .01 is satisfied provided, however, that in the case of a Restructure Security approved for options listing and trading under paragraph (d) of Commentary .05 under Rule 1009, such trading volume requirements must be satisfied based on the trading volume history of the Restructure Security.

**.02** Reserved.

**.03** In considering whether any of the events specified in Commentary .01 have occurred with respect to an underlying security, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded.

**.04** If prior to the delisting of a class of option contracts covering an underlying security which has been found not to meet the Exchange's requirements for continued approval, the Exchange shall determine that the underlying security again meets the Exchange's requirements for approval of such underlying security, the Exchange may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed under this Rule.

**.05** Reserved.

**.06** The Exchange may determine to withdraw approval of an underlying foreign currency whenever it deems such withdrawal advisable in the public interest or for the protection of investors. In the event that the Exchange effects such a withdrawal, the Exchange shall not open for trading any additional series of options of the class covering that underlying foreign currency.

**.07** If an ADR is initially deemed appropriate for options trading, pursuant to the criteria in Exchange Rule 1009, Commentary .03(ii) or (iii), the Exchange may not open for trading any additional series of options on that ADR unless (A) the percentage of worldwide trading volume in the ADR and other related ADRs and securities that takes place in the U.S. and in markets with which the Exchange has in place surveillance sharing agreements for any consecutive three month period is either (i) at least 30% without regard to the average daily trading volume in the ADR, or (ii) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 shares, or (B) the Exchange then has in place, a comprehensive surveillance agreement with the primary exchange in the home country where the security underlying the ADR is traded or (C) the Securities and Exchange Commission has otherwise authorized the listing.

**.08** Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .06 under Rule 1009 (such securities are defined and referred to in that Commentary as "Exchange-Traded Fund Shares") shall not be deemed to meet the Exchange's requirements for continued approval, and the exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares, whenever the Exchange-Traded Fund Shares are delisted and trading in the Shares is suspended on a national securities exchange, or the Exchange-Traded Fund Shares cease to be an "NMS stock". In addition, the exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

- (1) In accordance with the terms of paragraphs 1, through 7, of Commentary .01 of this Rule 1010 in the case of options covering Exchange-Traded Fund Shares when such options were approved pursuant to paragraph (a)(i) of Commentary .06 of Rule 1009.
- (2) Following the initial twelve-month period beginning upon the commencement of trading of the Exchange-Traded Fund Shares on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, there are fewer than 50 record and/or beneficial holders of Exchange-Traded Fund Shares for 30 or more consecutive trading day;
- (3) The value of the index, non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or Financial Instruments or Money Market Instruments, or portfolio of securities on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or
- (4) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

**.09** Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .07 to Rule 1009 (such securities are defined and referred to in that Commentary as "Trust Issued Receipts") shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

- (1) In accordance with the terms of Commentary .01 of this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Commentary .07 under Rule 1009;
- (2) The Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;
- (3) The Trust has fewer than 50,000 receipts issued and outstanding;
- (4) The market value of all receipts issued and outstanding is less than \$1,000,000; or

- (5) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

**.10** For Holding Company Depository Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.

**.11** Inadequate volume delisting.

- (1) Absent exceptional circumstances, a security initially approved for options trading may be deemed by the Exchange not to meet the requirements for continued approval, in which case the Exchange will not open for trading any additional series of equity option contracts of the class of options and may determine to delist the class of options if it meets the following criteria:

- a. The option has been trading on the Exchange not less than six (6) months; and
- b. The Exchange average daily volume ("ADV") of the entire class of options over the last six (6) month period was less than twenty (20) contracts.

If the option is singly listed only on the Exchange, the Exchange will cease to add new series and may delist the class of options when there is no remaining open interest;

- (2) Should the Exchange determine to delist an equity option pursuant to this Commentary .11, it will notify the specialist to whom the affected option is allocated of the determination to delist such option not less than ten (10) days prior to the scheduled delisting date (the "options delisting letter").
- (a) Within two (2) days of receiving an options delisting letter the affected specialist may in writing submit to the person designated by the Exchange in the options delisting letter the specialist's justification for and/or explanation of the low ADV in such option and reasons why the Exchange should continue to list the option (the "justification letter");
  - (b) The Exchange may, but is not required to, take into account the information provided in the justification letter in its determination to delist the option, and will indicate its determination to delist in writing to the affected specialist that provided the justification letter to the Exchange. The Exchange's decision to delist the option is exclusively its own and is not appealable.

**.12** Index Linked Securities

Absent exceptional circumstances, Index-Linked Securities ("Securities") initially approved for options trading pursuant to Commentary .09 to Rule 1009 shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series or option contracts of the class covering such Securities whenever the underlying Securities are delisted and trading in the Securities is suspended on a national securities exchange, or the Securities are no longer an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934). In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Index-Linked Securities in any of the following circumstances:

- (a) The underlying Index-Linked Security fails to comply with the terms of Commentary .09 to Rule 1009;
- (b) In accordance with the terms of Commentary .01 to this Rule 1010, in the case of options covering Index-Linked Securities when such options were approved pursuant to Commentary .09 to Rule 1009, except that, in the case of options covering Index-Linked Securities approved pursuant to Commentary .09(c)(ii) to Rule 1009 that are redeemable at the option of the holder at least on a weekly basis, then option contracts of the class covering such Securities may only continue to be open for trading as long as the Securities are listed on a national securities exchange and are "NMS" stock as defined in Rule 600 of Regulation NMS;
- (c) In the case of any Index-Linked Security trading pursuant to Commentary .09 to Rule 1009, the value of the Reference Asset is no longer calculated; or
- (d) Such other event shall occur or condition exist that in the opinion of the Exchange make further dealing in such options on the Exchange inadvisable.

**.13** If an option series is listed but restricted to closing transactions on another national securities exchange, the Exchange may list such series (even if such series would not otherwise be eligible for listing under the Exchange's Rules), which shall also be restricted to closing transactions on the Exchange.

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### **Rule 1011. Option Contracts To Be Traded**

The Exchange may from time to time approve for listing and trading on the Exchange put option contracts and call option contracts in respect of underlying stocks, Exchange-Traded Fund Shares and foreign currencies which have been selected in accordance with Rule 1009. All such option contracts shall be designated as to the type of option, the underlying stock or Exchange-Traded Fund Share (in the case of options on a stock or Exchange-Traded Fund Share) or the underlying foreign currency (in the case of options on a foreign currency), the expiration month

and the exercise price. Only option contracts of a series of options approved by the Exchange and currently open for trading on the Exchange may be purchased or sold (written) on the Exchange.

**Rule 1012. Series of Options Open for Trading**

(a) After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock or Exchange-Traded Fund Share or to a specific underlying foreign currency) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series as follows:

**(i) Stock or Exchange-Traded Fund Share Options.**

- (A) At the commencement of trading on the Exchange of a particular class of stock or Exchange-Traded Fund Share options, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading on the Exchange.
- (B) Additional series of stock or Exchange-Traded Fund Share options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on an individual stock until the close of trading on the business day prior to the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the second business day prior to expiration.
- (C) The exercise price of each series of stock or Exchange-Traded Fund Share options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange.
- (D) Long Term Options. The Exchange may list, with respect to any class of stock or Exchange-Traded Fund Share options series, options having from twelve up to thirty-nine months from the time they are listed until expiration. There may be up to ten expiration months for options on the SPDR® S&P 500® exchange-traded fund (the "SPY ETF") and up to six expiration months for options on all other stocks or Exchange Traded Fund Shares. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.



(ii) Reserved.

(iii) **U.S. Dollar-Settled Foreign Currency Options.** Within each class of approved U.S. dollar-settled foreign currency options, the Exchange may open for trading series of options expiring in consecutive calendar months ("consecutive month series"), as provided in subparagraph (A) of this paragraph (iii), and series of options expiring at three-month intervals ("cycle month series"), as provided in subparagraph (B) of this paragraph. Prior to the opening of trading in any series of U.S. dollar-settled FCO, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(A) Consecutive Month Series

With respect to each class of U.S. dollar-settled FCO, series of options having up to four consecutive expiration months may be opened for trading simultaneously, with the shortest-term series initially having no more than two months to expiration. Additional consecutive month series of the same class may be opened for trading on the Exchange at or about the time a prior consecutive month series expires, and the expiration month of each such new series shall normally be the month immediately succeeding the expiration month of the then outstanding consecutive month series of the same class of options having the longest remaining time to expiration.

(B) Cycle Month Series

The Exchange may designate one expiration cycle for each class of U.S. dollar-settled FCO. An expiration cycle shall consist of four calendar months ("cycle months") occurring at three-month intervals.

With respect to any particular class of U.S. dollar-settled FCO, series of options expiring in the four cycle months designated by the Exchange for that class may be opened for trading simultaneously, with the shortest-term series initially having approximately three months to expiration. Additional cycle month series of the same class may be opened for trading on the Exchange at or about the time a prior cycle month series expires, and the expiration month of each such new series shall normally be approximately three months after the expiration month of the then outstanding cycle month series of the same class of options having the longest remaining time to expiration.

(C) Long-Term Series.

The Exchange may list, with respect to any U.S. dollar-settled foreign currencies, options having up to three years from the time they are listed until expiration. There may be up to ten options series, options having up to thirty-six months from the time they are listed until expiration. There may be up to six additional expiration months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than nine months.

(D) For each expiration month opened for trading of U.S. dollar-settled foreign currency options, in addition to the strike prices listed by the Exchange pursuant to subsection (a)(iii)(U.S. Dollar-Settled Foreign Currency Options) of this Rule 1012, the Exchange shall also list a single strike price of \$0.01.

(E) Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying foreign currency moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened.

(iv) New series of equity options, options on Exchange Traded Fund Shares, and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Commentary .10 to this Rule.

(b) **Rotation.** On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day prior to the expiration date of a particular series of options, a closing rotation (as defined in Commentary .01 to Rule 1047) for such series shall commence at 4:00 p.m. in the case of options on stocks or 4:15 p.m. in the case of options on designated Exchange-Traded Fund Shares.

(c) **Adjustments.** The unit of trading and the exercise price initially established for option contracts of a particular series are subject to adjustment in accordance with the rules of the Options Clearing Corporation. When such adjustment or adjustments have been determined, announcement thereof shall be made by the Exchange and, effective as of the time specified in such announcement, the adjusted unit of trading and the adjusted exercise price shall be applicable with respect to all subsequent transactions in such series of options.

(d) Option contracts shall be subject to adjustments in accordance with the rules of the Options Clearing Corporation.

••• **Commentary:** -----

**.01** When put option contracts or put and call option contracts are first opened for trading on an underlying security or underlying foreign currency, the Exchange may open a series of put option contracts corresponding to each series of call option contracts open or to be opened for trading on the same underlying security or on the same underlying foreign currency.

**.02 FCO Series.** In fixing the exercise price of one or more series of options on any underlying foreign currency, the Exchange may take into account the forward sales prices quoted for that underlying foreign currency in the interbank foreign exchange market.

**.03** Reserved.

**.04** Reserved.

**.05** (a) The interval of strike prices of series of options on individual stocks may be:

(i) \$1 Strike Price Interval Program.

(A) \$1 or greater strike price intervals where the strike price is \$50 or less, but not less than \$1. Except as provided in subparagraph (C) below, the listing of \$1 strike price intervals shall be limited to options classes overlying no more than 150 individual stocks (the "\$1 Strike Program") as specifically designated by the Exchange. The Exchange may list \$1 strike price intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$1 Strike Program under their respective rules. If a class participates in the \$1 Strike Program, \$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS.

(B) Initial and Additional Series. To be eligible for inclusion into the \$1 Strike Program, an underlying stock must close below \$50 in its primary market on the previous trading day.

After a stock is added to the \$1 Strike Program, the Exchange may list \$1 strike price intervals from \$1 to \$50 according to the following parameters:

- (1) If the price of the underlying stock is equal to or less than \$20, the Exchange may list series with an exercise price up to 100% above and 100% below the price of the underlying stock. However, the foregoing restriction shall not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class. For example, if the price of the underlying stock is \$2, the Exchange would be permitted to list the following series: \$1, \$2, \$3, \$4, \$5, \$6 and \$7.
- (2) If the price of the underlying stock is greater than \$20, the Exchange may list series with an exercise price up to 50% above and 50% below the price of the underlying security up to \$50.
- (3) For the purpose of adding strikes under the \$1 Strike Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Rule Commentary .01(a) to Rule 1012.
- (4) No additional series in \$1 strike price intervals may be listed if the underlying stock closes at or above \$50 in its primary market. Additional series in \$1 strike price intervals may not be added until the underlying stock closes again below \$50.
- (5) LEAPS. For stocks in the \$1 Strike Program, the Exchange may list one \$1 strike price interval between each standard \$5 strike interval, with the \$1 strike price interval being \$2 above the standard strike for each interval above the price of the underlying stock, and \$2 below the standard strike for each interval below the price of the underlying stock ("\$2 wings"). For example, if the price of the underlying stock is \$24.50, the Exchange may list the following standard strikes in \$5 intervals: \$15, \$20,

\$25, \$30 and \$35. Between these standard \$5 strikes, the Exchange may list the following \$2 wings: \$18, \$27 and \$32.

In addition, the Exchange may list the \$1 strike price interval which is \$2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price (\$24.50) is \$20, the Exchange may list a \$22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP.

Additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

A stock shall remain in the \$1 Strike Program until otherwise designated by the Exchange.

(C) The Exchange may list \$1 strike prices up to \$5 in LEAPS(R) in up to 200 option classes on individual stocks. The Exchange may not list \$1 strike price intervals within \$0.50 on an existing \$2.50 strike in the same expiration, except that strike prices of \$2 and \$3 shall be permitted within \$0.50 of a \$2.50 strike price for classes also selected to participate in the \$0.50 Strike Program.

(D) Delisting Policy. For options classes selected to participate in the \$1 Strike Program, the Exchange will, on a monthly basis, review series that were originally listed under the \$1 Strike Program with strike prices that are more than \$5 from the current value of an options class and delist those series with no open interest in both the put and the call series having a: (1) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (2) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month. If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify other options exchanges with similar delisting policies regarding the eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, the Exchange may grant member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the \$1 Strike Program that are eligible for delisting.

(ii) \$0.50 or greater beginning at \$.50 where the strike price is \$5.50 or less, but only for options classes whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. The listing of \$0.50 strike prices shall be limited to options classes overlying no more than 20 individual stocks (the "\$0.50 Strike Program") as specifically designated by the Exchange. The Exchange may list \$0.50 strike prices on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$0.50 Strike

Program under their respective rules. A stock shall remain in the \$0.50 Strike Program until otherwise designated by the Exchange.

(iii) (A) \$2.50 or greater where the strike price is \$25 or less: provided, however, that the Exchange may not list \$2.50 intervals below \$50 (e.g., \$12.50, \$17.50) for any class included within the \$1 Strike Program;

(B) \$5 or greater where the strike price is greater than \$25 but less than \$200; and

(C) \$10 or greater where the strike price is \$200 or more, except as provided in paragraphs (b) and (c) below.

(iv) (A) The interval of strike prices of series of options on Exchange-Traded Fund Shares will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(B) The interval of strike prices of series of options on SLV and USO Exchange-Traded Fund Shares will be \$.50 or greater where the strike price is less than \$75.

(C) Notwithstanding any other provision regarding the interval of strike prices of series of options on Exchange-Traded Fund Shares in this rule, the interval of strike prices on SPDR® S&P 500® ETF ("SPY"), iShares Core S&P 500 ETF ("IVV"), PowerShares QQQ Trust ("QQQ"), iShares Russell 2000 Index Fund ("IWM"), and the SPDR® Dow Jones® Industrial Average ETF ("DIA") options will be \$1 or greater.

(v) The interval of strike prices of series of options on Index Linked Securities will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(vi) The interval between strike prices of series of options of series of options on Trust issued Receipts, including Holding Company Depository Receipts (HOLDERS), will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(vii) Notwithstanding any other provision regarding strike prices in this rule, non- Short Term Options that are on a class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Commentary .11 to this Rule 1012 and in the same strike price intervals that are permitted in Commentary .11 to this Rule 1012.

(b) The Exchange may select up to 60 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50 (the "\$2.50 Strike Price Program"). In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option, as part of this program.

(i) In addition, on any option class that has been selected as part of the \$2.50 Strike Price Program pursuant to paragraph (b) above, the Exchange may list \$2.50 strike prices between \$50 and \$100, provided the \$2.50 strike prices between \$50 and \$100 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an option class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$ 57.50 strike price and the \$62.50 strike price on the next business day.

(ii) An option class shall remain in the \$2.50 Strike Price Program until otherwise designated by the Exchange and a decertification notice is sent to the Options Clearing Corporation.

(c) The Exchange may list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks or on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$5 Strike Price Program under their respective rules.

**.06** The Exchange may initially list exercise strike prices for each expiration of U.S. dollar-settled options on currencies within a 40 percent band around the current Exchange Spot Price at fifty cent (\$.50) intervals. Thus, if the Exchange Spot Price of the Euro were at \$100.00, the Exchange would list strikes in \$.50 intervals up to \$120.00 and down to \$80.00, for a total of eighty-one strike prices available for trading. As the Exchange Spot Price for U.S. dollar-settled FCOs moves, the Exchange may list new strike prices that, at the time of listing, do not exceed the Exchange Spot Price by more than 20 percent and are not less than the Exchange Spot Price by more than 20 percent. For example, if at the time of initial listing, the Exchange Spot Price of the Euro is at \$100.00, the strike prices the Exchange will list will be \$80.00 to \$120.00. If the Exchange Spot Price then moves to \$105.00, the Exchange may list additional strikes at the following prices: \$105.50 to \$126.00.

**.07** The exercise price of each series of foreign currency options opened for trading on the Exchange normally shall be fixed at a price per unit which is reasonably close to the current Exchange Spot Price per unit of the underlying foreign currency in the foreign exchange market at or before the time such series of options is first opened for trading on the Exchange, as determined by finding the arithmetic mean of Exchange Spot Prices as defined in Rule 1000(b)(16) at or about such time.

**.08** Quarterly Options Series Program. The Exchange may list and trade P.M. settled options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either Index Options or options on Exchange Traded Funds ("ETFs"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules.

(a) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year.

(b) Reserved.

(c) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(d) Additional Series. Additional Quarterly Options Series of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing price of the underlying ETF (or "Exchange-Traded Fund Shares") as defined in Rule 1000(b)42 on the preceding day. The Exchange may also open additional strike prices of Quarterly Options Series in ETF options that are more than 30% above or below the current price of the underlying ETF provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

(f) Reserved.

(g) Delisting Policy. (i) With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having: (a) a strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; or (b) a strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(ii) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(iii) In connection with the above-referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting and shall work with such other

exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

(h) Reserved.

**.09** Notwithstanding Commentary .05 to this Rule 1012, the intervals between strike prices for options on the Reduced Value Russell 2000® Index and the Reduced Value Nasdaq 100® Options shall be determined in accordance with Commentary .02 and Commentary .03 to Rule 1101A.

**.10** Range Limitations for New Options Series. Range Limitations applicable to equity options, options on Exchange Traded Funds, and options on Trust Issued Receipts opened for trading are adopted by the Exchange to codify a quote mitigation strategy in the Options Listing Procedures Plan ("OLPP").

(a) Except as provided in subparagraphs (b) through (d) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. However, the foregoing restriction shall not prohibit the listing of at least three exercise prices per expiration month in an option class. Except as provided in Commentary .11(d) to Rule 1012, if the price of the underlying security is greater than \$20, the Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

The price of the underlying security is measured by:

- (i) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges;
- (ii) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines to list a new series; and
- (iii) for option series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 8:45 a.m. and 9:30 a.m. Eastern Time

(b) The series exercise price range limitations contained in subparagraph (a) above do not apply with regard to:

- (i) the listing of \$1 strike prices in option classes participating in the \$1 Strike Program or
- (ii) the listing of series of FLEX options.

(c) The Exchange may designate up to five option classes to which the series exercise price range may be up to 100% above and below the price of the underlying security (which underlying security price shall be determined in accordance with subparagraph (i) above). Such designations shall be made on an annual basis and shall not be removed during the calendar year unless the



option class is delisted by the Exchange, in which case the Exchange may designate another option class to replace the delisted class. If a designated option class is delisted by the Exchange but continues to trade on at least one options exchange, the option class shall be subject to the limitations on listing new series set forth in this Commentary .10 unless designated by another exchange.

(d) If the Exchange has designated five option classes pursuant to subparagraph (c) above, and requests that one or more additional option classes be excepted from the limitations on listing new series set forth in subparagraph (a) above, the additional option class(es) may so be designated upon the unanimous consent of all exchanges that trade such option class(es). Additionally, the Exchange may increase the percentage range for the listing of new series to more than 100% above and below the price of the underlying security for an option class, upon the unanimous consent of all exchanges that trade such option class(es).

Exceptions for an additional class or for an increase of the exercise price range shall apply to all standard expiration months existing at the time of the unanimous consent, plus the next standard expiration month to be added, and also to any nonstandard expirations that occur prior to the next standard monthly expiration.

(e) The Exchange can list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the OLPP or the rules of the exchange that initially listed the series.

**.11 Short Term Option Series Program.** After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. With respect to Wednesday SPY Expirations, the Exchange may open for trading on any Tuesday or Wednesday that is a business day series of options on the SPDR S&P 500 ETF Trust (SPY) to expire on any Wednesday of the month that is a business day and is not a Wednesday in which Quarterly Options Series expire ("Wednesday SPY Expirations"). With respect to Monday SPY Expirations, the Exchange may open for trading on any Friday or Monday that is a business day series of options on the SPY to expire on any Monday of the month that is a business day and is not a Monday in which Quarterly Options Series expire ("Monday SPY Expirations"), provided that Monday SPY Expirations that are listed on a Friday must be listed at least one business week and one business day prior to the expiration. The Exchange may list up to five consecutive Wednesday SPY Expirations and five consecutive Monday SPY Expirations at one time; the Exchange may have no more than a total of five Wednesday SPY Expirations and a total of five Monday SPY Expirations. Monday and Wednesday SPY Expirations will be subject to the provisions of this Rule. Regarding Short Term Option Series:

(a) The Exchange may select up to fifty (50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the fifty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to thirty (30) Short Term Option Series for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(b) With the exception of Monday and Wednesday SPY Expirations, no Short Term Option Series may expire in the same week in which monthly option series on the same class expire. In the case of Quarterly Options Series, no Short Term Option Series may expire on the same day as an expiration of Quarterly Option Series on the same class.

(c) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security). Any strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

(d) If the Exchange opens less than thirty (30) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

The Exchange may also open additional strike prices of Short Term Option Series that are more than 50% above or below the current price of the underlying security (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision.

In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Short Term Option Series may be (i) \$0.50 or greater where the strike price is less than \$100, and \$1 or greater where the strike price is between \$100 and \$150 for all classes that participate in the Short Term Options Series Program; (ii) \$0.50 for classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150. Related non-Short Term Option series shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Commentary .11 to this Rule 1012 and in the same strike price intervals that are permitted in Commentary .11 to this Rule 1012.

**.12 \$0.50 and \$1 Intervals for Options Used to Calculate Volatility Indexes.** Notwithstanding the provisions of this Rule 1012, the Exchange may open for trading series at \$0.50 or greater strike price intervals where the strike price is less than \$75 and \$1.00 or greater strike price intervals where the strike price is between \$75 and \$150 for options that are used to calculate a volatility index.

### **.13 Mini Options Contracts**

- (a) After an option class on a stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security with a 100 share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security may be listed for all expirations opened for trading on the Exchange. Mini Option contracts may currently be listed on SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Alphabet Inc. ("GOOGL") and Amazon.com Inc. ("AMZN").
- (b) Strike prices for Mini Options shall be set at the same level as for regular options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1250, and the strike price will be set at 125.
- (c) No additional series of Mini Options may be added if the underlying security is trading at \$90 or less. The underlying security must trade above \$90 for five consecutive days prior to listing Mini Options contracts in an additional expiration month.
- (d) The minimum price variation for bids and offers for Mini Options shall be the same as permitted for standard options on the same security. For example, if a security participates in the Penny Pilot Program, Mini Options on the same underlying security

may be quoted in the same minimum increments, e.g., \$0.01 for all quotations in series that are quoted at less than \$3 per contract and \$0.05 for all quotations in series that are quoted at \$3 per contract or greater, \$0.01 for all SPY option series, and Mini Options do not separately need to qualify for the Penny Pilot Program.

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**Rule 1013. Units of Trading**

The unit of trading in each series of options dealt in on the Exchange shall be the unit of trading established for that series by the Options Clearing Corporation pursuant to the rules of the Options Clearing Corporation.

**Rule 1014. Obligations of Market Makers**

(a) *General.* Transactions of a Specialist and a Registered Options Trader (ROT) should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(b) Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes. The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.

(1) The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options.

(2) An RSQT may only submit quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Specialist in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Specialist.

(3) The Exchange shall assign SQTs and RSQTs in accordance with Rule 507 and allocate one or more options to Remote Specialists in accordance with Rule 501. An SQT or RSQT may be assigned to and a Remote Specialist may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

(4) An RSQT shall be required to maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in options assigned to the RSQT or act as a specialist or market maker in any security underlying options assigned to the RSQT, and otherwise comply with the requirements of Rule 1020 regarding restrictions on the flow of privileged information between the affiliate and the specialist organization.

(5) An RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

(c) **Appointment.** Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market. The following bid/ask differentials only apply to electronic quotations following the Opening Process.

- (1) Options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, provided that the foregoing bid/ask differentials shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(d) **Classes of Options To Which Not Appointed.** With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed, an ROT should not

- (1) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or

- (2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(e) **Market Maker Orders.** ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and Public Customer-to-Public Customer Cross Orders subject to Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

••• **Commentary:** -----

**.01** A Specialist acting in the course of his specializing function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A Specialist shall also not charge a commission or fee for the handling, execution or processing of an order

delivered through the Exchange's System, whether the Specialist is acting as principal or agent for the order.

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**Rule 1015. Accommodations**

Notwithstanding the limitations of liability set forth in Exchange Rules 652, 1102A, 1011B, and 3226, the Exchange, subject to the express limits set forth below, may compensate users of Nasdaq PHLX for losses directly resulting from the actual failure of Phlx XL II, or any other Exchange quotation, transaction reporting, execution, order routing or other systems or facility to correctly process an order, Quote/Order, message, or other data, provided that Nasdaq PHLX has acknowledged receipt of the order, Quote/Order, message, or data.

- (1) For the aggregate of all claims made by all market participants related to the use of Nasdaq PHLX during a single calendar month, the Exchange's liability shall not exceed the larger of \$500,000, or the amount of the recovery obtained by the Exchange under any applicable insurance policy.
- (2) In the event all of the claims arising out of the use of Nasdaq PHLX cannot be fully satisfied because in the aggregate they exceed the maximum amount of liability provided for in this Rule, then the maximum amount will be proportionally allocated among all such claims arising during a single calendar month.
- (3) All claims for compensation pursuant to this Rule shall be in writing and must be submitted no later than 12:00 P.M. ET on the next business day following the day on which the use of Nasdaq PHLX gave rise to such claims. Nothing in this rule shall obligate the Exchange to seek recovery under any applicable insurance policy.

**Rule 1016. Exchange Sharing of Phlx XL Participant-Designated Risk Settings**

The Exchange may share any Phlx XL participant-designated risk settings in the trading system with the clearing member that clears transactions on behalf of the Phlx XL participant. For purposes of this rule a Phlx XL participant is any specialist, streaming quote trader or remote streaming quote trader.

**Rule 1017. Openings In Options**

(a) Definitions. The Exchange conducts an electronic opening for all option series traded on Phlx using its System.

- (i) The ABBO is the Away Best Bid or Offer.
- (ii) The "market for the underlying security" is either the primary listing market or the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), as determined by the Exchange by underlying and announced to the membership on the Exchange's web site.

- (iii) The Opening Price is described herein in sections (i) and (k).
  - (iv) The Opening Process is described herein in section (d).
  - (v) A Phlx Electronic Market Maker is a Specialist, Streaming Quote Trader ("SQT") or Remote SQT ("RSQT") who is required to submit two sided electronic quotations pursuant to Rule 1014(b)(ii)(D).
  - (vi) Potential Opening Price is described herein in section (h).
  - (vii) The Pre-Market BBO is the highest bid and the lowest offer among Valid Width Quotes.
  - (viii) A Quality Opening Market is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions.
  - (ix) A Valid Width Quote is a two-sided electronic quotation submitted by a Phlx Electronic Market Maker that meets the following requirements: options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.
  - (x) A Zero Bid Market is where the best bid for an options series is zero.
- (b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. Non-SQT Registered Options Traders ("ROTs") may submit orders. All-or-None interest that can be satisfied is considered for execution and in determining the Opening Price throughout the Opening Process.

(i) Opening Sweep. An Opening Sweep is defined at Rule 1080(b)(6).

(A) A Phlx Electronic Market Maker assigned in a particular option may only submit an Opening Sweep if, at the time of entry of the Opening Sweep, that Phlx Electronic Market Maker has already submitted and maintained a Valid Width Quote. All Opening Sweeps in the affected series entered by a Phlx Electronic Market Maker will be cancelled immediately if that Phlx Electronic Market Maker fails to maintain a continuous quote with a Valid Width Quote in the affected series.

(B) Opening Sweeps may be entered at any price with a minimum price variation applicable to the affected series, on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Phlx Electronic Market Maker may enter multiple Opening Sweeps, with each Opening Sweep at a different price level. If a Phlx Electronic Market Maker submits multiple Opening Sweeps, the system will consider only the most recent Opening Sweep at each price level submitted by such Phlx Electronic Market Maker in determining the Opening Price. Unexecuted Opening Sweeps will be cancelled once the affected series is open.

(ii) The system will aggregate the size of all eligible interest for a particular participant category at a particular price level for trade allocation purposes pursuant to Rule 1014.

(c) Orders Represented by Floor Brokers. To be considered in the Opening Process, orders represented by Floor Brokers must be entered electronically.

(d) Phlx Electronic Market Maker Valid Width Quotes and Opening Sweeps received starting at 9:25 AM are included in the Opening Process. Orders entered at any time before an option series opens are included in the Opening Process.

(i) The Opening Process for an option series will be conducted pursuant to paragraphs (f) - (k) below on or after 9:30 AM if: the ABBO, if any, is not crossed; and the system has received, within two minutes (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) of the opening trade or quote on the market for the underlying security in the case of equity options or, in the case of index options, within two minutes of the receipt of the opening price in the underlying index (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site), or within two minutes of market opening for the underlying currency in the case of U.S. dollar-settled FCO (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) any of the following:

(A) the Specialist's Valid Width Quote;

(B) the Valid Width Quotes of at least two Phlx Electronic Market Makers other than the Specialist; or



- (C) if neither the Specialist's Valid Width Quote nor the Valid Width Quotes of two Phlx Electronic Market Makers have been submitted within such timeframe, one Phlx Electronic Market Maker has submitted a Valid Width Quote.
- (ii) For all options, the underlying security, including indexes, must be open on the primary market for a certain time period as determined by the Exchange for the Opening Process to commence. The time period shall be no less than 100 milliseconds and no more than 5 seconds.
- (iii) The Specialist assigned in a particular equity or index option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index. The Specialist assigned in a particular U.S. dollar-settled FCO must enter a Valid Width Quote, in 90% of their assigned series, not later than 30 seconds after the announced market opening. The Specialist must promptly enter a Valid Width Quote in the remainder of their assigned series, which did not open within one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index or, with respect to a U.S. dollar-settled FCO, following the announced market opening.
- (iv) A Phlx Electronic Market Maker other than a Specialist that submits a quote pursuant to this Rule 1017 in any option series when the Specialist's quote has not been submitted shall be required to submit continuous, two-sided quotes in such option series until such time as the Specialist submits his/her quote, after which the Phlx Electronic Market Maker that submitted such quote shall be obligated to submit quotations pursuant to Rule 1014(b)(ii)(D).
- (v) The Opening Process will stop and an option series will not open if the ABBO becomes crossed or when a Valid Width Quote(s) pursuant to Rule 1017(d)(i) is no longer present. Once each of these conditions no longer exist, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below.
- (e) Reopening After a Trading Halt. The procedure described in Rule 1017 will be used to reopen an option series after a trading halt. If there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (d).
- (f) Opening with a PBBO (No Trade). If there are no opening quotes or orders that lock or cross each other and no routable orders locking or crossing the ABBO, the system will open with an opening quote by disseminating the Exchange's best bid and offer among quotes and orders ("PBBO") that exist in the system at that time, unless all three of the following conditions exist: (i) a Zero Bid Market; (ii) no ABBO; and (iii) no Quality Opening Market. If all of these conditions exist, the Exchange will calculate an Opening Quote Range pursuant to paragraph (j) and conduct the Price Discovery Mechanism pursuant to paragraph (k) below.

(g) Pre-Market BBO Calculation. If there are opening Valid Width Quotes or orders that lock or cross each other, the system will calculate the Pre-Market BBO.

(h) Potential Opening Price. To calculate the Potential Opening Price, the system will take into consideration all Valid Width Quotes and orders (including Opening Sweeps), except all-or-none interest that cannot be satisfied, for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (i)(A)(iii) and (j)(5) - (7) below contain additional provisions related to Potential Opening Price.

(A) More Than One Potential Opening Price. When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the system takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the system will round up to the minimum price variation to determine the Opening Price.

(B) If two or more Potential Opening Prices for the affected series would satisfy the maximum quantity criterion and leave contracts unexecuted, the Opening Price will be either the lowest executable bid or highest executable offer of the largest sized side.

(C) The Potential Opening Price calculation is bounded by the better away market price that may not be satisfied with the Exchange routable interest.

(i) Opening with Trade. (A) The Exchange will open the option series for trading with a trade on Exchange interest only at the Opening Price, if any of these conditions occur:

(i) the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO;

(ii) the Potential Opening Price is at or within the non-zero bid ABBO if the Pre-Market BBO is crossed; or

(iii) where there is no ABBO, the Potential Opening Price is at or within the Pre-Market BBO which is also a Quality Opening Market.

(B) If there is more than one Potential Opening Price which meets the conditions set forth in (A) above where:

(1) no contracts would be left unexecuted and

(2) any value used for the mid-point calculation (which is described in subparagraph (g) above) would cross either:

(a) the Pre-Market BBO, or

(b) the ABBO,

then, for the purposes of calculating the midpoint the Exchange will use the better of the Pre-Market BBO or ABBO as a boundary price and will open the option series for trading with an execution at the resulting Potential Opening Price. If these conditions are not met, an Opening Quote Range will be calculated pursuant to paragraph (j) below and thereafter, the Price Discovery Mechanism in paragraph (k) below will commence.

(j) The system will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above.

- (1) Except as provided in paragraphs (3) and (4) below, to determine the minimum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the highest quote bid among Valid Width Quotes on the Exchange and on the away market(s), if any.
- (2) Except as provided in paragraphs (3) and (4) below, to determine the maximum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be added to the lowest quote offer among Valid Width Quotes on the Exchange and on the away market(s), if any.
- (3) If one or more away markets are disseminating a BBO that is not crossed (the Opening Process will stop and an options series will not open if the ABBO becomes crossed pursuant to (d)(v)) and there are Valid Width Quotes on the Exchange that are executable against each other or the ABBO:
  - (a) The minimum value for the OQR will be the highest away bid.
  - (b) The maximum value for the OQR will be the lowest away offer.
- (4) If there are Valid Width Quotes on the Exchange that are executable against each other, and there is no away market disseminating a BBO in the affected option series:
  - (a) The minimum value for the OQR will be the lowest quote bid among Valid Width Quotes on the Exchange.
  - (b) The maximum value for the OQR will be the highest quote offer among Valid Width Quotes on the Exchange.
- (5) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, any price used for the mid-point calculation (which is described in subparagraph (h) above) that is wider than the OQR will be restricted to the OQR price on that side of the market for the purposes of the mid-point calculation.

- (6) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted pursuant to paragraph (h)(C) above when contracts will be routed, the system will use the away market price as the Potential Opening Price.
- (7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the system to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (h) above. The system will consider routable Public Customer and Professional interest in price/time priority to satisfy the away market.
- (k) Price Discovery Mechanism. If the Exchange has not opened pursuant to paragraphs (f) or (i) above, after the OQR calculation in paragraph (j), the Exchange will conduct the following Price Discovery Mechanism.
- (A) First, the system will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance (unmatched contracts), size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.
- (B) Any new interest received by the system will update the Potential Opening Price. If during or at the end of the Imbalance Timer, the Opening Price is at or within the OQR, the Imbalance Timer will end and the system will open with a trade at the Opening Price if the executions consist of Exchange interest only without trading through the ABBO and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price. If no new interest comes in during the Imbalance Timer and the Potential Opening Price is at or within OQR and does not trade through the ABBO, the Exchange will open with a trade at the end of the Imbalance Timer at the Potential Opening Price.
- (C) Next, provided the option series has not opened pursuant to (k)(B) above, the system will:
- (1) send a second Imbalance Message with a Potential Opening Price that is bounded by the OQR (and would not trade through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price) and includes away market volume in the size of the imbalance to participants; and concurrently
  - (2) initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the system which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price, the

system will open with trades and the Route Timer will simultaneously end. The system will monitor quotes received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

- (3) If no trade occurred pursuant to (2) above, when the Route Timer expires, if the Potential Opening Price is within OQR (and would not trade through the limit price(s) of interest within OQR that is unable to be fully executed at the Opening Price), the system will determine if the total number of contracts displayed at better prices than the Exchange's Potential Opening Price on away markets ("better priced away contracts") would satisfy the number of marketable contracts available on the Exchange. The Exchange will open the option series by routing and/or trading on the Exchange, pursuant to (i)-(iii) below.
- (i) If the total number of better priced away contracts would satisfy the number of marketable contracts available on the Exchange on either the buy or sell side, the system will route all marketable contracts on the Exchange to such better priced away markets as an Intermarket Sweep Order ("ISO") designated as an Immediate-or-Cancel ("IOC") order(s), and determine an opening Phlx Best Bid/Offer ("PBBO") that reflects the interest remaining on the Exchange. The system will price any contracts routed to away markets at the Exchange's Opening Price; or
- (ii) If the total number of better priced away contracts would not satisfy the number of marketable contracts the Exchange has, the system will determine how many contracts it has available at the Exchange Opening Price. If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price would satisfy the number of marketable contracts on the Exchange on either the buy or sell side, the system will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Opening Price and trade available contracts on the Exchange at the Exchange Opening Price. The system will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price pursuant to this sub-paragraph; or
- (iii) If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price plus the contracts available at away markets at the Exchange Opening Price would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the system will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at away markets at prices equal to the Exchange Opening Price.

- (4) The system may send up to two additional Imbalance Messages (which may occur while the Route Timer is operating) bounded by OQR and reflecting away market interest in the volume. After the Route Timer has expired, the processes in paragraph (3) will repeat (except no new Route Timer will be initiated).
- (5) Forced Opening. After all additional Imbalance Messages have occurred pursuant to paragraph (4) above, the system will open the series by executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated size, trading available contracts on the Exchange at the Exchange Opening Price bounded by OQR (without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price), and routing contracts to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the system will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted contracts from the imbalance not traded or routed will be cancelled back to the entering participant if they remain unexecuted and priced through the Opening Price, unless the member that submitted the original order has instructed the Exchange in writing to reenter the remaining size, in which case the remaining size will be automatically submitted as a new order. All other interest will be eligible for trading after opening.
- (6) The system will execute orders at the Opening Price that have contingencies (such as, without limitation, all-or-none) and non-routable orders, such as a "Do Not Route" or "DNR" Orders, to the extent possible. The system will only route non-contingency Public Customer and Professional orders.
- (D) The system will re-price Do Not Route orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new PBBO.
- (E) During the opening of the option series, where there is an execution possible, the system will give priority to market orders first, then to resting limit orders and quotes. The allocation provisions of Rule 1014(g)(vii) will apply.
- (F) Upon opening of an option series, regardless of an execution, the system disseminates the price and size of the Exchange's best bid and offer (PBBO).

**Rule 1019. Entry and Display of Quotes**

(a) All bids or offers for option contracts dealt in on the Exchange made and accepted in accordance with these Rules shall constitute binding contracts between the parties thereto but shall be subjected to applicable requirements and the rules of the Clearing Corporation.

(b) Quotes are subject to the following requirements and conditions:

- (1) RSQTs or Remote Specialists may generate and submit option quotations.

- (2) The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.
- (3) Specialists, Remote Specialists and ROTs may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.
- (4) The System accepts quotes for the Opening Process as specified in Rule 1017.
- (5) **Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.
- (6) **Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.
- (7) Quotes submitted to the System are subject to the following: minimum increment provided for in Rule 1034, risk protections provided for in Rule 1099 and Quote Exhaust provided for in Rule 1082.

(c) Quotes will be displayed in the System as described in Rule 1070.

#### **Rule 1020. Registration and Functions of Options Specialists**

(a) A Specialist is not required to be assigned to an options series.

- (i) Notwithstanding the foregoing, no member shall act as an options specialist (to include a Remote Specialist as defined in Rule 1020(a)(ii)) in any option unless such member is registered as an options specialist in such option by the Exchange pursuant to

Rule 501 and such registration may be revoked or suspended at any time by the Exchange.

(ii) A Remote Specialist is an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

(iii) A Remote Specialist has all the rights and obligations of an options specialist, unless Exchange rules provide otherwise.

(iv) A Remote Specialist shall be accessible to Exchange staff and members during all trading hours for the product(s) allocated to such specialist and shall provide Exchange staff and members with telephonic and/or electronic communication access to such specialist and/or associated staff at all times during trading hours.

(v) A Remote Specialist can have a Designee in a physical trading crowd during trading hours. The Designee may trade in open outcry in the option classes allocated to the Remote Specialist, but the Remote Specialist shall not receive a participation entitlement under Rule 1014(g)(v) with respect to orders represented by the Designee in open outcry.

(A) A Designee is an individual who is approved by the Exchange for the time period specified by the Exchange to represent a Remote Specialist in its capacity as a Remote Specialist. The Exchange may require specified supervision of a Designee and/or limit a Designee's authority to represent a Remote Specialist.

(B) A Designee must be a member of the Exchange, an affiliate of the Remote Specialist, and a Registered Options Trader pursuant to the rules of the Exchange.

The Exchange shall have the discretion to permit an individual who is not affiliated with a Remote Specialist to act as a Designee for the Remote Specialist on an emergency basis, provided that the individual satisfies the other requirements of subparagraph (a)(v)(B) of this Rule.

(C) A Designee may not trade as a Market-Maker in securities allocated to the Remote Specialist unless the Designee is acting on behalf of the Remote Specialist in its capacity as a Remote Specialist.

(b) As a condition of a member's being registered as a specialist in one or more options, it is to be understood that a specialist is to engage in a course of dealings for his own account to assist in the maintenance insofar as reasonably practicable, of a fair and orderly market on the Exchange in such options in accordance with and when viewed in relation to the criteria set forth in paragraphs (c) and (d) of this Rule and the commentary thereto. If the Exchange shall have found any substantial or continued failure by a specialist to engage in such a course of dealings, the registration of such specialist shall be subject to suspension or cancellation by the Exchange in one or more of the options in which he is registered. Nothing herein shall limit any other power of the Board of Directors under the By-Laws or any Rule of the Exchange with respect to the



registration of a specialist or in respect of any violation by a specialist of the provisions of this Rule.

(c) A specialist or his member organization shall not effect on the Exchange purchases or sales of any option in which such specialist is registered, for any account in which he or his member organization is directly or indirectly interested, unless such dealings are reasonably necessary to permit such specialist to maintain a fair and orderly market.

(d) In connection with the function of a specialist in relation to assisting in the maintenance, insofar as reasonably practicable, of a fair and orderly market in the options in which he is registered, it is ordinarily expected that a specialist will engage, to a reasonable degree under the existing circumstances, in dealings for his own account in options when lack of price continuity or lack of depth in the options market or temporary disparity between supply and demand in the options market exists or is reasonably to be anticipated. Transactions on the Exchange for his own account effected by a specialist in the options in which he is registered are to constitute a course of dealings reasonably calculated to contribute to the maintenance of price continuity with reasonable depth, and to the minimizing of the effects of temporary disparity between supply and demand, immediate or reasonably to be anticipated. Transactions in such options not part of such a course of dealings are not to be effected by a specialist for his own account.

**Rule 1021. Reserved**

**Rule 1022. Securities Accounts and Orders of Specialists and Registered Options Traders**

(a) *Identification of Accounts*—In a manner prescribed by the Exchange, each Specialist and Registered Options Trader shall file with the Exchange upon request and keep current a list identifying all accounts for stock, Exchange-Traded Fund Share, option and related securities or foreign currencies, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and other related trading in which the Specialist or Registered Options Trader may, directly or indirectly, engage in trading activities or over which he exercises investment discretion. No Specialist or Registered Options Trader shall engage in stock, Exchange-Traded Fund Share, option, or related securities or foreign currencies, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and other related trading in an account which has not been reported (pursuant to this Rule) in a manner prescribed by the Exchange.

(b) Reserved.

(c) Reserved.

(d) No Specialist or Registered Options Trader in options on a foreign currency shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such person, or any corporation or partnership associated with such person's member organization, pertaining to transactions by such person, corporation or partnership for its own account in any foreign currency with respect to which options are traded on the Exchange, in any futures contract on such a foreign currency, in any option contract on such a foreign currency (including options on foreign currency futures contracts), or in other foreign currency

derivatives as may be called for under the Rules of the Exchange or as may be requested by the Exchange in the course of any investigation, any examination or other official inquiry.

••• *Commentary:* -----

**.01** Reports of accounts and orders required to be filed with the Exchange pursuant to this Rule relate only to accounts in which a Specialist or Registered Options Trader, as an individual, directly or indirectly, controls trading activities or has a direct interest in the profits or losses of such accounts. Reports are required for accounts over which a Specialist or Registered Options Trader exercises investment discretion as well as his proprietary accounts. For purposes of this Rule, related securities include securities convertible into or exchangeable for underlying securities. In the case of Specialists and Registered Options Traders in options on a foreign currency, the provisions of this Rule governing identification of accounts shall apply to accounts for the trading of foreign currencies, foreign currency futures contracts and foreign currency options (including options on foreign currency futures contracts).

**.02** In addition to the existing obligations under Exchange Rules regarding the production of books and records, a specialist or Registered Options Trader in commodity futures contracts, options on commodity futures contracts or any other derivatives based on such commodity, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable physical commodity, physical commodity options, commodity futures contracts, options on commodity futures contracts, or any other derivatives on such commodity, as may be requested by the Exchange.

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**Rule 1023. Reserved**

**Rule 1024. Conduct of Accounts for Options Trading**

(a) *Registration of Options Principals.*

(i) No member or member organization or individual associated with a member organization shall be approved to transact options business with the public until such persons, who are designated as Options Principals, have been approved by and registered with the Exchange. Persons engaged in the supervision of options sales practice or a person to whom the designated general partner or executive officer (pursuant to Rule 1025) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals.

(ii) *Foreign Currency Options-Qualified Customer Personnel*—Registered Representatives of a member organization may solicit or accept customer orders for foreign currency options.

Otherwise, an Application for Waiver of Series 7 Examination may be submitted describing and certifying at least six months of options-related experience. Such waiver is not automatic, but is subject to approval based on the information contained in the application.

(b) *Opening of Accounts*

(i) No member or member organization shall accept an order from a customer to purchase or write an option contract or currency or index warrant contract unless the customer's account has been approved for options trading in accordance with the provisions of this Rule. In addition, no member or member organization shall accept an order from a customer to purchase or write a foreign currency option contract unless such customer's account has been specially approved by a designated Foreign Currency Options Principal of such member or member organization, in writing, for transactions in foreign currency options. Such approval to engage in foreign currency options transactions shall be based upon the facts known to the member or member organization concerning the customer and his investment objectives and financial situations.

(ii) *Diligence in Opening Accounts*—In approving a customer's account for options transactions, a member or member organization shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information which shall be retained in accordance with Rules 760 and 1025. Based upon such information, the branch office manager or other Registered Options Principal shall approve, in writing, the customer's account for options transactions; provided, that if the branch office manager is not a Registered Options Principal, his approval shall within a reasonable time be confirmed by a Registered Options Principal.

(iii) *Verification of Customer Background and Financial Information*—The background and financial information upon which the account of every new customer that is a natural person has been approved for options trading, unless the information is included in the customer's account agreement, shall be sent to the customer for verification within fifteen (15) days after the customer's account has been approved for options transactions. A copy of the background and financial information on file with the member organization shall also be sent to the customer for verification within fifteen (15) days after the member organization becomes aware of any material change in the customer's financial situation.

(iv) *Agreements to Be Obtained* —Within fifteen (15) days after a customer's account has been approved for options transactions, a member organization shall obtain from the customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the rules of the Options Clearing Corporation and that such customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Rules 1001 and 1002.

(v) *Options Disclosure Documents to be Furnished* —At or prior to the time a customer's account is approved for options transactions, a member organization shall furnish the customer with one or more current Options Disclosure Documents in accordance with the requirements of Rule 1029.

(c) Every member organization transacting business with the public in uncovered option contracts shall develop, implement and maintain specific written procedures governing the conduct of such business which shall include, at least, the following:

(i) Specific criteria and standards to be used in evaluating the suitability of a customer for uncovered short option transactions;

(ii) Specific procedures for approval of accounts engaged in writing uncovered short option contracts, including written approval of such accounts by a Registered Options Principal;

(iii) Designation of a specific Registered Options Principal qualified individual(s) as the person(s) responsible for approving accounts which do not meet the specific criteria and standards for writing uncovered short option transactions and for maintaining written records of the reasons for every account so approved;

(iv) Establishment of specific minimum net equity requirements for initial approval and maintenance of customer uncovered option accounts; and

(v) Requirements that customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short option transactions, at or prior to the initial uncovered short option transaction. See Rule 1029(b).

••• *Commentary* -----

**.01** In fulfilling its obligations pursuant to paragraph (b)(ii) of this Rule with respect to options customers that are natural persons, a member organization shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

1. Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation)
2. Employment status (name of employer, self-employed or retired)
3. Estimated annual income from all sources
4. Estimated net worth (exclusive of family residence)
5. Estimated liquid net worth (cash, securities, other)
6. Marital status: number of dependents
7. Age
8. Investment experience and knowledge (e.g., number of years, size, frequency and types of transactions for options, stocks and bonds, and commodities)

In addition, the customer's account records shall contain the following information, if applicable:

- a. Source or sources of background and financial information (including estimates) concerning the customer
- b. Discretionary trading authorization: agreement on file; name; relationship to customer and experience of person holding trading authority
- c. Date Options Disclosure Document(s) furnished to customer
- d. Nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions)
- e. Name of registered representative
- f. Name of ROP approving account; date of approval
- g. Dates of verification of currency of account information

The member organization should consider utilizing a standard account approval form so as to ensure the receipt of all the required information.

**.02** Refusal of a customer to provide any of the information called for in Commentary .01 shall be so noted on the customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

**.03** The requirement of paragraph (b)(iii) of this Rule for the initial and subsequent verification of customer background and financial information is to be satisfied by sending to the customer the information required in Items 1 through 6 of Commentary .01 above as contained in the member's records and providing the customer with an opportunity to correct or complete the information. In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.

**.04** Approval of the accounts of customers for foreign currency options transactions shall be conducted in accordance with this Rule and, in the case of customers that are natural persons, shall include consideration of the background and financial information that a member organization must seek to obtain under Commentary .01 to this Rule. With respect to institutional foreign currency options customers (i.e., customers that are not natural persons), a member organization shall seek to obtain the following information.

- (i) evidence of authority for the institution to engage in foreign currency options transactions (corporate resolutions, trust documents, etc.);
- (ii) written designations of individuals within the institution authorized to act for it in connection with foreign currency options transactions; and
- (iii) basic financial information concerning the institution.

**.05** For purposes of Rule 1024 (Conduct of Accounts for Options Trading) Rule 1025 (Supervision of Accounts) and Rule 1029 (Delivery of Options Disclosure Document), the term writing uncovered short option positions shall include combinations and any transactions which involve naked writing.

**.07** Individuals who are delegated responsibility pursuant to Rule 1025 for reviewing the acceptance of discretionary accounts, for approving exceptions to a member organization's criteria or standards for uncovered options accounts, and for approval of communications, shall be designated as Options Principals and are required to qualify as an Options Principal by passing the Registered Options Principal Qualification Examination (Series 4).

**.08** A person accepting orders from non-member customers (unless such customer is a broker-dealer registered with the Securities and Exchange Commission) is required to register with the Exchange and to be qualified by passing the General Securities Registered Representative Examination (Series 7).

**.09** Definition of Branch Office. A "branch office" is any location where one or more associated persons of a member or member organization regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

- (i) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;
- (ii) any location that is the associated person's primary residence; provided that: (a) only one associated person, or multiple associated persons, who reside at that location and are members of the same immediate family, conduct business at the location; (b) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (c) neither customer funds nor securities are handled at that location; (d) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, advertisements and other communications to the public by such associated person; (e) the associated person's

correspondence and communications with the public are subject to all supervisory provisions of the Exchange's Rules (f) electronic communications (e.g., e-mail) are made through the member's or member organization's electronic system; (g) all orders are entered through the designated branch office or an electronic system established by the member or member organization that is reviewable at the branch office; (h) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member or member organization; and (i) a list of the locations is maintained by the member or member organization;

- (iii) any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the member or member organization complies with the provisions of (b) through (h) of paragraph (ii) above;
- (iv) any office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulations) may be displayed);
- (v) any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any advertisements or sales literature identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch locations are directly supervised;
- (vi) the Floor of a registered national securities exchange where a member or member organization conducts a direct access business with public customers; or
- (vii) a temporary location established in response to the implementation of a business continuity plan.

Notwithstanding the exclusions in subparagraphs (1) - (vii) above, any location that is responsible for supervising the activities of persons associated with a member or member organization at one or more non-branch locations of such member or member organization is considered to be a branch office.

For purposes of this Rule, the term "business day" shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

For purposes of this Rule, the term "associated person of a member or member organization" is defined as a member, allied member, or employee associated with a member or member organization.

For purposes of (ii)(h) above, written supervisory procedures shall include criteria for on-site for cause reviews of an associated person's primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

For purposes of (ii)(h) and (iii) above, written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm's size; (ii) the firm's organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person's customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person's or associated person's outside business activities, whether or not related to the securities business.

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### **Rule 1025. Supervision of Accounts**

(a) *Duty to Supervise*; —The general partners or directors of each member organization that conducts a non-member customer business shall provide for appropriate supervisory control and shall designate a general partner or executive officer, who shall be identified to the Exchange, to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person, who may be the same individual designated pursuant to substantially similar New York Stock Exchange or FINRA rules shall:

- (i) Delegate to qualified employees responsibilities and authority for supervision and control of each office, department or business activity, and shall provide for appropriate written procedures of supervision and control.
- (ii) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.
- (iii) Develop and implement written policies and procedures reasonably designed to independently supervise the activities of accounts serviced by branch office managers, sales managers, regional/district sales managers or any person performing a similar



supervisory function. Such supervisory reviews must be performed by a qualified Registered Options Principal who:

- A. Is either senior to, or otherwise independent of, the producing manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a producing manager receives an override or other income derived from that producing manager's customer activity that represents more than 10% of the designated person's gross income derived from the member organization over the course of a rolling twelve-month period, the member organization must establish alternative senior or otherwise independent supervision of that producing manager to be conducted by a qualified Registered Options Principal other than the designated person receiving the income.
- B. If a member organization is so limited in size and resources that there is no qualified Registered Options Principal senior to, or otherwise independent of, the producing manager to conduct the reviews pursuant to paragraph (a)(iii)(A) of this Rule (for instance, the member organization has only one office, or an insufficient number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a Registered Options Principal in compliance with paragraph (a)(iii)(A) of this Rule to the extent practicable.
- C. A member organization relying on paragraph (a)(iii)(B) of this Rule must document the factors used to determine that complete compliance with all of the provisions of paragraph (a)(iii)(A) of this Rule is not possible, and that the required supervisory systems and procedures in place with respect to any producing manager comply with the provisions of paragraph (a)(iii)(A) of this Rule to the extent practicable.
- D. A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in paragraphs (a)(iii)(A), (a)(iii)(B) and (a)(iii)(C) of this Rule will be deemed to have met such requirements.

(b) Maintenance of Customer Records—

- (i) Background and financial information of customers who have been approved for options transactions shall be maintained at both the branch office servicing the customer's account and the principal supervisory office having jurisdiction over that branch office. Copies of account statements of options customers shall be maintained at both the branch office supervising the accounts and the principal supervisory office having jurisdiction over that branch for the most recent six-month period. With respect to the record retention responsibility of principal supervisory offices, customer information and account statements may be maintained at a location off premises so long as the records

are readily accessible and promptly retrievable. Other records necessary to the proper supervision of accounts shall be maintained at a place easily accessible both to the branch office servicing the customer's account and to the principal supervisory office having jurisdiction over that branch office.

- (ii) Upon the written instructions of a customer, a member may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (b) not to exceed three months if the customer is going abroad.
- (iii) Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated by the designated general partner or executive officer (pursuant to Rule 1025). Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

For purposes of this paragraph (b)(iii), any person designated by the designated general partner or executive officer (pursuant to Rule 1025) must be a Registered Options Principal.

(c) *Internal Controls.*

- (i) Member organizations must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each member organization's efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the annual report required by paragraph (g) of this Rule.
- (ii) A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in paragraph (c)(i) of this Rule will be deemed to have met such requirements.

(d) *Annual Branch Office Inspections.*

- (i) Each branch office that supervises one or more non-branch locations must be inspected no less often than once each calendar year unless:

- A. it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy this Rule's requirements for a particular branch office; or
  - B. based upon the written policies and procedures of such member organization providing for a systematic risk-based surveillance system, the member organization submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to paragraph (e) of this Rule.
- (ii) Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct supervision and control of the branch office in question (i.e., not the branch office manager, or any person who directly or indirectly reports to such manager, or any person to whom such manager directly reports). Written reports reflecting the results of such inspections are to be maintained at the member organization for the longer of three years or until the next branch office inspection.
- (iii) A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in paragraph (d)(1) and (d)(2) of this Rule as well as to related requirements in paragraphs (e) and (f) of this Rule will be deemed to have met such requirements.

*(e) Risk -Based Surveillance and Branch Office Identification.*

- (i) Any member organization seeking an exemption, pursuant to Rule 1025(d)(i)(B), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member organization's business model and product mix. Such policies and procedures must also, at a minimum, provide for:
- A. The inspection of branches where developments during the year require a reconsideration of such branch's exemption;
  - B. A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and
  - C. A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.
- (ii) For purposes of paragraph (e)(i) of this Rule, the risk-based factors to be considered should include, but not necessarily be limited to, the following:
- A. Number of Registered Representatives;
  - B. A significant increase in the number of Registered Representatives;

- C. Number of customers and volume of transactions;
  - D. A significant increase in branch office revenues;
  - E. Incidence of concentrated securities positions in customer's accounts;
  - F. Aggregate customer assets held;
  - G. Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g. options, equities, mutual funds, annuities, etc.);
  - H. Numbers of accounts serviced on a discretionary basis;
  - I. Compliance and regulatory history of the branch, including:
    - (1) Registered Representatives subject to special supervision by the member organization, self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission in years other than the previous or current year;
    - (2) Complaints, arbitrations, internal discipline, or prior inspection findings; and
    - (3) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.
  - J. Operational factors, such as the number of errors and account designation changes per Registered Representative;
  - K. Incidence of accommodation mailing addresses (e.g., post office boxes and "care of" accounts);
  - L. Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;
  - M. Experience, function (producing or non-producing) and compensation structure of branch office manager;
  - N. Branch offices recently opened or acquired; and
  - O. Changes in branch location, status or management personnel.
- (iii) Notwithstanding any policies or procedures implemented pursuant to this Rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

- A. Offices with one or more Registered Representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year.
- B. Offices with 25 or more registered individuals;
- C. Offices in the top 20% of production or customer assets for the member organization;
- D. Any branch office not inspected within the previous two calendar years; and
- E. Any branch office designated as exercising supervision over another branch office.

(f) *Criteria for Inspection Programs.* An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

- (i) Safeguarding of customer funds and securities;
- (ii) Maintaining books and records;
- (iii) Supervision of customer accounts serviced by branch office managers;
- (iv) Transmittal of funds between customers and Registered Representatives and between customers and third parties;
- (v) Validation of customer address changes; and
- (vi) Validation of changes in customer account information.

(g) *Written Report.* By April 1 of each year, each member organization that conducts a nonmember customer business shall submit to the Exchange a written report on the member organization's supervision and compliance effort during the preceding year and on the adequacy of the member organization's ongoing compliance processes and procedures. Each member organization that conducts a public customer options business shall also specifically include its options compliance program in the report. The report shall include, but not be limited to, the following:

- (i) A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations.
- (ii) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year's efforts of this nature.
- (iii) Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas:

- (A) antifraud and trading practices;
- (B) investment banking activities;
- (C) sales practices;
- (D) books and records;
- (E) finance and operations;
- (F) supervision;
- (G) internal controls; and
- (H) anti-money laundering.

If any of these areas do not apply to the member organization, the report shall so state.

- (iv) for each member organization, the designation of a general partner or principal executive officer as Chief Compliance Officer (which designation shall be updated on Schedule A of Form BD).
- (v) A certification signed by the member organization's Chief Executive Officer (or equivalent), that:
  - A. The member organization has in place processes to:
    - (1) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,
    - (2) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and
    - (3) test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.
  - B. In member organizations, the Chief Executive Officer (or equivalent officer) conducted one or more meetings with the organization's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the organization's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.

- C. In member organizations, the processes described in paragraph (g)(v)(A)(1) of this Rule, are evidenced in a report reviewed by the Chief Executive Officer ( or equivalent officer), Chief Compliance Officer and such other officers as the organization may deem necessary to make this certification, and submitted to the organization's board of directors and audit committee (if such committee exists) on or before April 1 of each year.
- D. In member organizations, the Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in paragraph (g)(v)(C) of this Rule and such other employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

A member organization that specifically includes its options compliance program in a report that complies with substantially similar requirements of the New York Stock Exchange or FINRA will be deemed to have met the requirements of this Rule 1025 (g) and (h).

(h) Reports to Control Persons—By April 1 of each year, each member organization shall submit a copy of the report that Rule 1025(g) requires the member organization to prepare to its one or more control persons or, if the member organization has no control person, to the audit committee of its board of directors or its equivalent committee or group. In the case of a control person that is an organization (a "controlling organization"), the member organization shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization's board of directors or its equivalent committee or group. For the purpose of this paragraph, "control person" means a person who controls the member organization, and the term "control" means the power to exercise a controlling influence over the management or policies of the member organization, unless such power is solely the result of an official position with the member organization. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of the member organization, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of the member organization, shall be presumed to control the member organization.

(i) Foreign Currency Options Principal—Every member handling public orders for foreign currency options shall designate and specifically identify to the Exchange one or more principals of the organization who shall be responsible for supervision of the member organization's non-member customer accounts and communications to customers insofar as such accounts and communications relate to foreign currency options. Each designated Foreign Currency Options Principal shall be a general partner, an officer or a person of appropriate supervisory or managerial rank of the member and shall have successfully completed a Registered Options Principal Qualification Examination, allied member's examination or other principal's examination or have demonstrated equivalent knowledge, and an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of foreign currency options and the markets for the underlying foreign currencies.

(j) The provisions of this Rule are applicable to currency and index warrants.

••• *Commentary* -----

**.01** A designated Foreign Currency Options Principal, in meeting his responsibility for supervision of nonmember customer accounts and orders, may delegate to qualified employees responsibility and authority, as provided above in the case of the Senior Registered Options Principal.

**.02** Each member organization that conducts a non-member customer business shall establish, maintain, and enforce written procedures which detail the specific methods used to supervise all non-member customer accounts and all orders in such accounts. Such written procedures shall specifically identify the titles and positions of individuals who have been delegated authority and responsibility for an identified segment of the member organization's business, including option compliance functions. The procedures shall also include the registration status and location of all such supervisory and compliance personnel. Each member organization shall also develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining uncovered short option positions, and specifically providing for frequent supervisory review of such accounts.

**.03** Each member organization shall maintain, at the principal supervisory office having jurisdiction over the office servicing the customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each customer's options account, on a timely basis to determine (i) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved; (ii) the size and frequency of option transactions; (iii) commission activity in the account; (iv) profit or loss in the account; (v) undue concentration in any options class or classes; and (vi) compliance with the provisions of Regulation T of the Federal Reserve Board.

**.04** As a general matter, supervisory qualifications of a designated Foreign Currency Options Principal may be demonstrated only by successful completion of a registered options principal examination, allied member's examination or other principal examination. In exceptional circumstances, however, the Exchange may, upon written request by a member organization, accept as a demonstration of equivalent knowledge other evidence of a designated Foreign Currency Options Principal's supervisory qualifications. Advanced age, physical infirmity or experience in fields ancillary to the foreign exchange trading, investment banking or securities businesses will not individually of themselves constitute sufficient grounds to excuse a designated Foreign Currency Options Principal from the general requirement that supervisory



qualifications be shown by successful completion of an appropriate examination.

**.05** Documentation evidencing the annual written report required by paragraph (g) of this Rule, must be maintained in a place that is easily accessible and shall be provided to the Exchange upon request.

#### **Rule 1026. Suitability**

(a) No member, member organization or registered employee thereof shall recommend to any customer any transaction to purchase or write an option contract unless such member, member organization or registered employee has reasonable grounds to believe that the entire recommended transaction is not unsuitable for such customer on the basis of information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by such member, member organization or registered employee.

(b) No member, member organization or registered employee thereof, shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

(c) The provisions of this Rule are applicable to currency and index warrants.

#### **Rule 1027. Discretionary Accounts**

(a) *Authorization and Approval Required.* The authorization of all discretionary options accounts and the approval of all discretionary options transactions shall be handled as follows:

(i) *Stock, Index or Exchange-Traded Fund Share Options*—No member or member organization and no partner or employee of a member organization shall exercise any discretionary power with respect to trading in stock, index or Exchange-Traded Fund Share options contracts in a customer's account unless such customer has given prior written authorization and the account has been accepted in writing by a Registered Options Principal. Each firm shall designate specific Registered Options Principals pursuant to Rule 1025 to review discretionary accounts. A Registered Options Principal specifically delegated such responsibilities under Rule 1025 (who is an individual other than the Registered Options Principal who accepted the account) shall review the acceptance of each discretionary account to determine that the Registered Options Principal accepting the account had a reasonable basis for believing that the customer was able to understand and bear the risks of the strategies or transactions proposed, and he shall maintain a record of the basis for his determination.

(ii) *Foreign Currency Options*—No member or member organization and no partner or employee of a member organization shall exercise any discretionary power with respect to trading in foreign currency options contracts in a customer's account unless such

customer has given prior written authorization with respect to such trading and the account has been accepted in writing by a designated Foreign Currency Options Principal, who shall maintain a record of the basis for his determination that such customer was able to understand and bear the risks of the strategies or transactions proposed. Such designated Foreign Currency Options Principal must approve and initial each discretionary foreign currency options order on the day entered unless such order has already been approved and initialled by a Registered Options Principal, provided that in the case of approvals by Registered Options Principals who are not designated Foreign Currency Options Principals, such approvals shall be confirmed within a reasonable time by a designated Foreign Currency Options Principal..

- (iii) *General*—Every discretionary order shall be identified as discretionary on the order at the time of entry. Discretionary accounts shall receive frequent appropriate supervisory review by the Registered Options Principal specifically delegated such responsibilities under Rule 1025, who is not exercising the discretionary authority.
- (iv) The provisions of this Rule are applicable to index warrants.
- (b) *Options Programs*—Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the customer shall be furnished with a written explanation meeting the requirements of Rule 1049 of the nature and risks of such programs.
- (c) *Prohibited Transactions*—No member or member organization and no partner, officer or employee of a member organization shall effect with or for any customer's account in respect to which such member or member organization or partner, officer or employee of a member organization is vested with any discretionary power any transactions of purchase or sale of option contracts which are excessive in size or frequency in view of the financial resources and character of such account.
- (d) *Record of Transactions*—A record shall be made of every option transaction for an account in respect to which a member or member organization or a partner, officer or employee of a member organization is vested with any discretionary authority, such record to include the name of the customer, the designation, number of contracts and premium of the option contracts, the date and time when such transaction took place and clearly reflecting the fact that discretionary authority was exercised.
- (e) *Discretion as to Time or Price Excepted*—This Rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security or foreign currency shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined below, pursuant to valid Good-Till-Cancelled instructions issued on a "not held" basis. Any exercise of time and price discretion must

be reflected on the order ticket. As used in this paragraph (e) the term "institutional account" shall mean the account of: (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (iii) any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

••• *Commentary* -----

.01 Any member organization that does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary account activity must establish and implement procedures to require Registered Options Principal qualified individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

**Rule 1028. Confirmations and Complaints**

(a) Every member and member organization shall promptly furnish to each customer a written confirmation of each transaction in option contracts for such customer's account. Each such confirmation shall show the type of option, the underlying stock, Exchange-Traded Fund Share or foreign currency, as the case may be, the expiration month, the exercise price, the number of option contracts, the premium, commissions, the transaction and settlement dates, whether the transaction was a purchase or a sale (writing) transaction, whether the transaction was an opening or a closing transaction, and whether the transaction was effected on a principal or agency basis. The confirmation shall by appropriate symbols distinguish between Exchange options transactions and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

(b) Every member organization conducting a customer business shall maintain and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved. The central file shall be located at the principal place of business of the member organization or such other principal office as shall be designated by the member organization. At a minimum, the central file shall include: (i) identification of complaint; (ii) date complaint was received; (iii) identification of Registered Representative servicing the account; (iv) a general description of the matter complained of, and (v) a record of what action, if any, has been taken by the member organization with respect to the complaint. The term "options-related complaint" shall mean any written statement by a customer or person acting on behalf of a customer alleging a grievance arising out of or in connection with listed options. Each options-related complaint received by a branch office of a member organization shall be forwarded to the office in which the separate, central file is located no later than 30 days after receipt by the branch office. A copy of every options-related complaint shall be maintained at the branch office that is the subject of the complaint.

(1) The provisions of this Rule shall be applicable to index warrants.

**Rule 1029. Delivery of Options Disclosure Documents**

(a) *Options Disclosure Documents*—Every member and member organization shall deliver a current Options Disclosure Document to each customer at or prior to the time such customer's account is approved for options transactions. A copy of each amendment to an Options Disclosure Document shall be furnished to each customer who was previously furnished the Options Disclosure Document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such customer. The term "current Options Disclosure Document" means the most recent edition of such Document which meets the requirements of Rule 9b-1 promulgated under the Securities Exchange Act of 1934.

(b) The written description of risks required by Rule 1024(c)(v) shall be in a format prescribed by the Exchange or in a format developed by the member organization, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(c) Below is a sample risk description for use by member organizations to satisfy the requirements of paragraph (b) of this Rule 1029:

***Special Statement for Uncovered Options Writers.***

*There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.*

- 1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.*
- 2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.*
- 3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.*
- 4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.*

5. *If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.*

6. *The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. NOTE: It is expected that you will read the booklet entitled CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from your broker. In particular, your attention is directed to the chapter entitled Risks of Buying and Writing Options. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.*

••• **Commentary** -----

**.01** Where the customer of a member or member organization is a broker or dealer entering his orders with the member or member organization in a single omnibus account, such member or member organization shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current Options Disclosure Documents, as requested by him in order to enable him to comply with the requirements of this Rule.

**.02** Where a broker or dealer enters orders for his customers with, or clears transactions through, a member organization on a fully disclosed basis and such member organization carries the accounts of such customers, the responsibility for delivering one or more current Options Disclosure Documents as provided in this Rule shall rest with the member organization. However, such member organization may rely upon the good faith representation of the introducing broker or dealer that one or more current Options Disclosure Documents have been delivered in compliance with this Rule.

**.03** The Exchange will advise members and member organizations when an Options Disclosure Document is amended.

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**Rule 1030. Transactions With Issuers**

No member or member organization shall accept an order for the account of any corporation which is the issuer of an underlying stock or Exchange-Traded Fund Share for the sale (writing) of a call option contract with respect to that underlying stock or Exchange-Traded Fund Share.

**Rule 1031. Restricted Stocks**

For the purposes of: (i) covering a short position in a call option contract, or (ii) delivery pursuant to the exercise of a put option contract, or (iii) satisfying an exercise notice assigned in respect of a call option contract, no member or member organization shall accept shares of an

underlying stock, which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC rules promulgated under the Securities Act of 1933, unless, at the time such securities are accepted and at any later time such securities are delivered, applicable provisions of the Securities Act of 1933 and the rules thereunder have been complied with by the holder of such securities.

**Rule 1032. Statements of Accounts**

Statements of accounts required by Rule 752 shall be sent not less frequently than once every month to each customer in whose account there has been an entry during the preceding month with respect to an option contract and at least quarterly to all accounts having a money or a security position during the preceding quarter. Statements of accounts to customers shall show security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

With respect to options customers having a general (margin) account, such statement shall also provide the mark-to-market price and market value of each option position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account and the general (margin) account equity. The statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed option transactions has been included in confirmations of such transactions previously furnished to the customer, and that such information will be made available to the customer promptly upon request. The statement shall also bear a legend requesting the customer to promptly advise the member of any material change in the customer's investment objectives or financial situation.

••• *Commentary:* -----

.01 For purposes of the foregoing Rule, general (margin) account equity shall be computed by subtracting the total of the "short" security values and any debit balance from the total of the "long" security values and any credit balance.

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**Rule 1034. Minimum Increments**

(a) Except as provided in Commentary below, all options on stocks, index options, and Exchange Traded Fund Shares trading at a price of \$3.00 or higher shall have a minimum increment of \$.10, and all options on stocks and index options trading at a price under \$3.00 shall have a minimum increment of \$.05.

(1) However, the Board of Directors may establish different minimum trading increments. The Exchange will designate any such change as a stated policy, practice or interpretation with respect to the administration of Rule 1034, within the meaning of

Section 19(b)(3)(A) of the Exchange Act and will file a proposed rule change with the Securities and Exchange Commission to be effective upon filing.

(2) An order received at a price expressed in other than the appropriate minimum trading increment described in this Rule shall be rejected by the System.

(3) Different minimum changes for dealings in option contracts other than those specified in paragraph (a) may also be fixed by the Exchange from time to time for option contracts of a particular series.

### **Commentary:**

**.01 Penny Pilot Program:** For a pilot period scheduled to expire June 30, 2020 or the date of permanent approval, if earlier (the "pilot"), certain options shall be quoted and traded on the Exchange in minimum increments of \$0.01 for all series in such options with a price of less than \$3.00, and in minimum increments of \$0.05 for all series in such options with a price of \$3.00 or higher, except that options overlying the PowerShares QQQ Trust ("QQQQ")®, SPDR S&P 500 Exchange Traded Funds ("SPY"), and iShares Russell 2000 Index Funds ("IWM") shall be quoted and traded in minimum increments of \$0.01 for all series regardless of the price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

The Exchange may replace any pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the pilot, based on trading activity in the previous six months. The replacement issues may be added to the pilot on the second trading day in the first month of each quarter.

**.02** All options on foreign currencies where the underlying foreign currency is not the U.S. dollar shall have a minimum increment of \$.01.

**.03** All options on Alpha Indexes shall have a minimum increment of \$.01 if options on either component of the index have a minimum increment of \$.01.

**.04** All Mini Option contracts shall have a minimum price variation as set forth in Commentary .13 of Rule 1012.

### **Rule 1035. Zero-Bid Option Series**

In the case where the bid price for any options series is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Rule 1034. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening Process and persist after the Opening Process, those orders are posted at a price equal to the minimum trading increment as defined in Rule 1034.

### **Rule 1036. Affiliated Persons Of Specialists**

(a) Reserved.

(b) No issuer, or parent or subsidiary thereof, or any officer, director or 10% stockholder thereof, may become an approved person in a specialist member organization whose members are registered in options overlying a security of that issuer.

**Rule 1037. Authorization to Give Up**

(a) *General.* For each transaction in which a member organization participates, the member organization may indicate, at the time of the trade, with respect to floor trading only, or through post trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). A member organization may Give Up a Restricted OCC Number provided the member organization has written authorization as described in paragraph (b)(ii) below ("Authorized Member Organization").

(b) *Opt In.* Clearing Members may request the Exchange restrict one or more of their OCC clearing numbers ("Opt In") as described in subparagraph (i) below. If a Clearing Member Opts In, the Exchange will require written authorization from the Clearing Member permitting a member organization to Give Up a Clearing Member's Restricted OCC Number. An Opt In would remain in effect until the Clearing Member terminates the Opt In as described in subparagraph (iii) below. If a Clearing Member does not Opt In, that Clearing Member's OCC number would be subject to Give Up by any member organization.

(i) *Clearing Member Process to Opt In.* A Clearing Member may Opt In by sending a completed "Clearing Member Restriction Form" listing all Restricted OCC Numbers and Authorized Member Organizations. A Clearing Member may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Member would be required to submit the Clearing Member Restriction Form to the Exchange's Membership Department as described on the form. Once submitted, the Exchange requires ninety days before a Restricted OCC Number is effective within the System.

(ii) *Member Organization Give Up Process for Restricted OCC Numbers.* A member organization desiring to Give Up a Restricted OCC Number must become an Authorized Member Organization. The Clearing Member will be required to authorize a member organization as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the member organization is a party to, as set forth in paragraph (d) below.

(iii) *Amendments to Authorized Member Organizations or Restricted OCC Numbers.* A Clearing Member may amend its Authorized Member Organizations or Restricted OCC Numbers by submitting a new Clearing Member Restriction Form to the Exchange's Membership Department indicating the amendment as described on the form. Once a Restricted OCC Number is effective within the System pursuant to paragraph (i) above, the Exchange may permit the Clearing Member to authorize, or remove authorization



for, a member organization to Give Up the Restricted OCC Number intra-day only in unusual circumstances, and on the next business day in all regular circumstances. The Exchange will promptly notify member organizations if they are no longer authorized to Give Up a Clearing Member's Restricted OCC Number. If a Clearing Member removes a Restricted OCC Number, any member organization may Give Up that OCC clearing number once the removal has become effective on or before the next business day.

(c) *System.* The System will not allow an unauthorized member organization to Give Up a Restricted OCC Number.

- (i) For orders that are executed on the trading floor in open outcry using the Options Floor Based Management System ("FBMS"), the System will reject the clearing portion of the trade if an unauthorized Give Up with a Restricted OCC Number was entered. The member organization will receive notification of the rejected clearing information, and will be required to modify the clearing information by contacting the Exchange.
- (ii) For all other orders, the System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry.

(d) *Letter of Guarantee.* A clearing arrangement subject to a Letter of Guarantee would immediately permit the Give Up of a Restricted OCC Number by the member organization that is party to the arrangement.

(e) An intentional misuse of this Rule is impermissible, and may be treated as a violation of Rule 707 or Rule 708.

### **Rule 1038. Reserved**

### **Rule 1040. Failure To Pay Premium**

Whenever The Options Clearing Corporation ("OCC") shall reject an Exchange options transaction because of the failure of the clearing member acting on behalf of the purchaser to pay the premium due thereon as required by the Rules of OCC, the member or member organization acting as or on behalf of the seller (writer) shall have the right either to cancel the transaction by giving notice thereof to the defaulting clearing member or to enter into either a new opening writing transaction or closing sale transaction, as the case may be, in respect of the same option contract that was the subject of the rejected Exchange options transaction, charging any loss resulting therefrom (including any commissions paid or payable in connection with such new transaction) to the defaulting clearing member. Such action shall be taken as soon as possible and in any event not later than the close of trading on the day the Exchange options transaction was rejected by OCC, unless the Exchange shall extend such time.

In the event the rejected transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange options transaction can be effected to establish the amount of any loss the member or member organization acting as or on behalf of

the seller shall have a claim against the defaulting clearing member for the amount of the premium due thereon.

#### **Rule 1041. Options Contracts Of Suspended Members**

When announcement is made of the suspension of a member or member organization, other than a clearing member, pursuant to the provisions of Rules Rule 70 and Rule 71, all open short positions of the suspended member or member organization in option contracts and all open positions resulting from exercise of option contracts, other than positions that are secured in full by a specific deposit in accordance with the rules of The Options Clearing Corporation ("OCC"), shall be closed without unnecessary delay by all member organizations carrying such positions for the account of the suspended member or member organization; provided, however, that upon any such suspension the Board may, in its discretion, suspend the mandatory close-out provisions of this Rule and may, in its discretion, reinstate such provisions at such time as it may determine. No temporary suspension of the mandatory close-out provisions of this Rule shall relieve the suspended member or member organization of his or its obligations or for any damages incurred by member organizations carrying positions for the account of such suspended member or member organization. Should an open short position or an open position resulting from an exercise of an option contract not be closed when required to be closed by this Rule, the price for the purpose of determining shall be fixed by the price current at the time when such position should have been closed under this Rule. When a clearing member is suspended, the positions of such clearing member shall be closed out in accordance with the rules of OCC.

#### **Rule 1042. Exercise Of Equity Option Contracts**

(a) *Exercise Notices.* An outstanding option contract may be exercised by the tender to The Options Clearing Corporation ("OCC") of an exercise notice made during the periods, and using the procedures, specified in OCC rules. An exercise notice may be tendered to OCC only by the clearing member in whose OCC account the option contract is carried. Option exercises are also subject to restrictions that are established by or may be imposed by the Exchange in Rules 1002, 1004 and 1005, and in this Rule. Members and member organizations may establish fixed procedures as to the latest time they will accept exercise notices from their customers.

(b) *Exercise-by-Exception Procedure for Expiring Options.* Special procedures apply to the exercise of equity options on the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the last business day before their expiration ("expiring options"). Unless waived by OCC, expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under OCC Rule 805. This Rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to OCC rules, the following Exchange requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either:

- (i) take no action and allow exercise determinations to be made in accordance with OCC's rule 805 Ex-by-Ex procedure where applicable; or
- (ii) submit a Contrary Exercise Advice ("CEA") or Advice Cancel to the Exchange by the deadline specified in paragraph (d) below.

(c) *Exercise Cut-Off Time.* Option holders have until 5:30 p.m. (EST) on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day immediately prior to the expiration date, to make a final decision to exercise or not exercise an expiring option. Members may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. (EST).

(d) *Submission of Contrary Exercise Advices ("CEAs").* A CEA is a communication either to not exercise an option that would be automatically exercised pursuant to The Options Clearing Corporation's ("OCC") Ex-by-Ex procedure, or to exercise an option that would not be automatically exercised pursuant to OCC's Ex-by-Ex procedure. A CEA may be submitted by a member or member organization either by using the Exchange's CEA Form, OCC's clearing system (ENCORE), or a CEA form of any other national securities exchange of which they are a member and where the option is listed, or via such other method as the Exchange may prescribe. A CEA may be canceled or resubmitted at any time up to the exercise cut-off time specified below.

For customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange.

For non-customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange if such member or member organization employs an electronic submission procedure with an electronic time stamp (with fixed procedures to ensure security of the time stamp) to indicate the time of the submission of exercise instructions by option holders. Members and member organizations are required to manually submit a CEA by 5:30 p.m. (EST) for non-customer accounts if such members and/or member organizations do not employ an electronic submission procedure with electronic time stamp for the submission of exercise instructions by option holders.

(e) *Waiver of Ex-by-Ex Procedure.* If OCC has waived the Ex-by-Ex procedure for an options class, members, and member organizations must either:

- (i) submit to the Exchange, a CEA, in a manner specified by the Exchange, within the time limits specified in paragraph (d) above if the holder intends to exercise the option, or
- (ii) take no action and allow the option to expire without being exercised.

The applicable underlying security price in such instances will be as described in OCC rule 805(j). In cases where the Ex-by-Ex procedure has been waived, OCC rules require that members and member organizations wishing to exercise such options must submit an affirmative Exercise Notice to OCC, whether or not a CEA has been filed with the Exchange.

(f) *Indicating Final Exercise Decisions.* An Exchange member organization that has accepted the responsibility to indicate final exercise decisions on behalf of another member or non-member organization shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such member organization may establish a processing cut-off time prior to the Exchange's exercise cut-off time at which it no longer will accept final exercise decisions in

expiring options from options holders for whom it indicates final exercise decisions. Each member or member organization that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are timely indicated to such broker-dealer.

(g) *Exceptions to Submitting a CEA; Recordkeeping.* Members and member organizations may receive and submit final exercise decisions after the exercise cut-off time (but prior to expiration) without having submitted a CEA under the following circumstances:

- (i) in order to remedy mistakes made in good faith;
- (ii) to take appropriate action as the result of a failure to reconcile unmatched Exchange option transactions; or
- (iii) where exceptional circumstances have restricted an option holder's ability to inform a member organization of a decision regarding exercise, or a member organization's ability to receive such decision by the cut-off time.

The burden of establishing any of the above exceptions for a proprietary or customer account of a member or member organization rests solely on the member or member organization seeking to rely on such exceptions.

In the event a member or member organization does not timely submit a CEA in accordance with the requirements of this Rule or does not timely submit a CEA for a final exercise decision pursuant to an exception in the paragraph above, the responsible member or member organization shall set forth in a written memorandum the surrounding circumstances and shall file a copy of the memorandum with the Exchange's Regulatory staff no later than 12:00 noon (EST) on the business day following the expiration. Such memorandum must additionally include the time when such final exercise decision was made or, in the case of a customer, was received, and shall be subject to the recordkeeping requirements of SEC rules 17a-3(a)(6) and 17a-4(b).

(h) *Modifying the Time for Close of Trading in Options.* In the event the Exchange provides advance notice on or before 5:30 p.m. (EST) on the business day immediately prior to the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to the last business day before the expiration date indicating that a modified time for the close of trading in equity options on such business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. (EST) deadline found in Rule 1042 (c). However, members and member organizations have until 7:30 (EST) to deliver a CEA or Advice Cancel to the Exchange for: (i) customer accounts; and, (ii) non-customer accounts where such member firm employs an electronic submission procedure with an electronic time stamp (with fixed procedures to ensure security of the time stamp) to indicate the time of receipt of exercise instructions.

For non-customer accounts, members and member organizations that do not employ an electronic submission procedure with a time stamp for the submission of exercise instructions are required to deliver a CEA or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. (EST) deadline found in Rule 1042(d).

(i) *Extending or Reducing the Cut-Off Time for Exercise Decisions.*

(i) The Exchange may establish extended cut-off times for a decision to exercise or not exercise an expiring option and for the submission of CEAs on a case-by-case basis due to an unusual circumstance.

(ii) The Exchange, with at least one (1) business day prior advance notice, by 12:00 noon (EST) on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of CEAs on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a CEA be before the close of trading.

(j) For purposes of this Rule 1042, the terms "customer account" and "non-customer account" have the same meaning as in OCC by-laws.

(k) Reporting final exercise decisions contemplated by this Rule does not serve to substitute as the effective "exercise notice" to OCC for the exercise or non-exercise of expiring options.

(l) In the event of "unusual circumstances," Rule 1042(h)(i) provides that the Exchange may extend the cut-off times for exercise instructions and the submission of a CEA beyond the normal time frames specified in Rule 1042(c). For purposes of subparagraph (h)(i), an "unusual circumstance" includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal system malfunctions affecting the ability to disseminate or update market quotes and/or deliver orders; or other similar occurrences. Rule 1042 (h)(ii) provides that the Exchange may also reduce such cut-off times for "unusual circumstances." For purposes of subparagraph (h)(ii), an "unusual circumstance" includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day the option contract expires, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to expiration.

(m) Each member organization shall establish fixed procedures to insure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

(n) It is contemplated by this Rule that effecting an exercise decision in an expiring option on the basis of material information obtained after the exercise cut-off time is activity inconsistent with just and equitable principles of trade.

(o) The exercise cut-off requirements contained in this Rule do not apply to any foreign currency or index option products listed on the Exchange.

(p) Each Member Organization shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda will be subject to the requirements of SEC rule 17a-4(b).

#### **Rule 1043. Allocation of Exercise Notices**

(a) Each member organization shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in option contracts in such member organization's customers' accounts. Such allocation shall be made on a "first-in, first-out" or automated random selection basis that has been approved by the Exchange or on a manual random selection basis that has been specified by the Exchange. Each member organization shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' accounts, explaining its manner of operation and the consequences of that system. Allocation procedures for foreign currency options with customized dates shall conform to the requirements set forth in Rules 1069(k).

(b) Each member organization shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no member organization shall change its method of allocation unless the change has been reported to and approved by the Exchange. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another Exchange having comparable standards pertaining to methods of allocation.

(c) Each member organization shall preserve for a three-year period sufficient workpapers and other documentary materials relating to the allocation of exercise assignment notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

#### **Rule 1044. Delivery and Payment**

Delivery of the shares of underlying stock or Exchange-Traded Fund Shares (in the case of an option on a stock or Exchange-Traded Fund Share) upon the exercise of an option contract, and payment of the aggregate exercise price in respect thereof, shall be effected in accordance with the rules of The Options Clearing Corporation ("OCC"). As promptly as practicable after the exercise of a stock or Exchange-Traded Fund Share option contract by a customer, the member organization shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract or to deposit the underlying stock or Exchange-Traded Fund Shares in the case of a put option contract or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board. As promptly as practicable after the assignment to a customer of a stock or Exchange-Traded Fund Share option exercise notice, the member organization shall require the customer to deposit the underlying stock or Exchange-Traded Fund Share in the case of a call option contract if the underlying stock or Exchange-Traded Fund Share is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put option contract, or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin

account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board.

In accordance with the applicable rules of OCC, upon exercise of an in-the-money U.S. dollar-settled foreign currency option structured as a call, the holder receives, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the U.S. dollar-settled foreign currency options contract multiplied by the number of units of currency covered by the contract. For a U.S. dollar-settled foreign currency option structured as a put, the holder receives U.S. dollars representing the excess of the exercise price over the closing settlement value of the U.S. dollar-settled foreign currency option contract multiplied by the number of units of foreign currency covered by the contract.

#### **Rule 1045. Off-Exchange RWA Transfers**

(a) Existing positions in options listed on the Exchange of a Member or non-Member (including an affiliate of a Member) may be transferred on, from, or to the books of a Clearing Member off the Exchange if the transfer establishes a net reduction of risk-weighted assets attributable to those the Member or non-Member's options positions (an "RWA Transfer"). For purposes of this rule, the term "Person" shall be defined as an individual, partnership (general or limited), joint stock company, corporation, limited liability company, trust or unincorporated organization, or any governmental entity or agency or political subdivision thereof.

(1) RWA Transfers include, but are not limited to: (a) a transfer of options positions from Clearing Corporation Member A to Clearing Corporation Member B that net (offset) with positions held at Clearing Corporation Member B, and thus closes all or part of those positions, and (b) a transfer of positions from a bank-affiliated Clearing Corporation Member to a non-bank-affiliated Clearing Corporation Member.

(2) RWA Transfers may occur on a routine, recurring basis.

(3) RWA Transfers may result in the netting of positions.

(4) No RWA Transfer may result in preferential margin or haircut treatment.

(5) No RWA Transfer may result in a change in ownership (i.e., an RWA transfer must occur between accounts of the same Person).

(6) No prior written notice to the Exchange is required for RWA Transfers.

(7) Off-exchange transfers of positions in Exchange-listed options may be subject to applicable laws, rules, and regulations, including rules of other self-regulatory organizations. Transfers of non-Exchange listed options and other financial instruments are not governed by this Rule.

#### **Rule 1046. Clearing Arrangements**

A member or member organization conducting an options business must be a Clearing Member or have a clearing arrangement with a Clearing Member.

**Rule 1047. Trading Halts**

(a) Automated Trading Halts. Trading will automatically be halted by the System in an option when:

- i. trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market or is subject to a regulatory halt on the primary market;
- ii. the opening of such underlying stock or Exchange-Traded Fund Share has been delayed because of unusual circumstances; or
- iii. trading in the underlying stock or Exchange-Traded Fund Share has been paused by the primary market.

(b) Manual Trading Halt. Trading on the Exchange in any class of option contracts shall be halted whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

- (i) occurrence of an act of God or other event outside the Exchange's control;
- (ii) a Trading System (for purposes of this Rule, "Trading System" or "System" is defined as the Exchange's current automated trading system or any other Exchange quotation, transaction reporting, execution, order routing or other systems for trading options) technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system; or
- (iii) other unusual conditions or circumstances are present.

Manual Authority. An Options Exchange Official shall have the authority, respecting a particular class or series of options, to delay the opening, to halt and reopen after a halt, to open where the underlying stock or Exchange-Traded Fund Share has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

(c) In the event the Exchange halts trading pursuant to paragraphs (a) or (b) above, all trading in the affected option shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

No member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect.



(d) Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

- (i) The Exchange will not open an affected option.
- (ii) After the opening, the Exchange shall reject Market Orders, as defined in Options 8, Section 32(a) (including Complex Orders, as defined in Rule 1098), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.
- (iii) After the opening, the Exchange shall elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection.
- (iv) When evaluating whether a specialist or Registered Options Trader has met the continuous quoting obligations of Rule 1014(b)(ii)(D)(1) and (2) in options overlying NMS stocks, the Exchange will not consider as part of the trading day the time that an NMS stock underlying an option was in a Limit State or Straddle State.
- (v) Electronic trades are not subject to an obvious error or catastrophic error review pursuant to Rule 1092(c) or (d). Nothing in this provision shall prevent electronic trades from review on Exchange motion pursuant to Rule 1092(c)(3), or subject to nullification or adjustment pursuant to Rule 1092(e) - (k).

(e) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

(f) During a halt, the Exchange will maintain existing orders on the book (but not existing quotes), except as noted in Rule 1093, accept orders and quotes, and process cancels. During a halt, existing quotes are cancelled and auction orders and auction responses, as well as Crossing Orders, are rejected.

(g) Resumption of Trading After a Halt. Trading in an option that has been the subject of a halt under this rule shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary market for the underlying stock or Exchange-Traded Fund Share after ten minutes have passed since the underlying stock or Exchange-Traded Fund Share was paused by the primary market, trading in

such options contracts may be resumed by the Exchange if the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. Trading shall resume according to the process set forth in Rule 1017.

#### **Rule 1048. Stock Transfer Tax**

(a) Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall be the responsibility of the seller (writer) to whom the exercise notice is assigned in the case of a call option contract or the exercising holder in the case of a put option contract, except that (i) in the case of a call option contract where the incidents of the tax are attributable solely to the exercising holder, the member organization representing such holder or another member organization which acts on its behalf as a clearing member of The Options Clearing Corporation ("OCC"), the tax shall be the responsibility of the exercising holder, and (ii) in the case of a put option contract where the incidents of the tax are attributable solely to the seller (writer) to whom the exercise notice is assigned, the member organization representing such seller (writer) or another member organization which acts on its behalf as a clearing member of OCC, the tax shall be the responsibility of such seller (writer). Each delivery of securities subject to such tax must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax or, if required by applicable law, such tax shall be remitted by the clearing member having responsibility therefore to the clearing corporation through which it customarily pays stock transfer taxes, in accordance with the applicable rules of such clearing corporation.

#### **Rule 1049. Options Communications**

(a) Nasdaq PHLX members and persons associated with a member shall comply with FINRA Rule 2220 (except FINRA Rule 2220(c)) as if such Rule were part of Nasdaq PHLX's Rules. Nasdaq PHLX and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of Nasdaq PHLX. Therefore, Nasdaq PHLX members are complying with Nasdaq PHLX Rule 1049 by complying with FINRA Rule 2220 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Nasdaq Phlx Rule 1049 are being performed by FINRA on Nasdaq's behalf.

#### **Rule 1050. Violation Of By-Laws And Rules Of Options Clearing Corporation**

A member, member organization or director of a member organization that is a corporation who or which has been determined in an Exchange disciplinary proceeding to have violated any provision of the rules of the Options Clearing Corporation with respect to the reporting, clearance or settlement of any Exchange options transaction, shall be subject to the same penalty or penalties as may be imposed for violation of an Exchange Rule.

#### **Rule 1051. General Comparison And Clearance Rule**

(a) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(b) All Exchange options transactions shall be reported at the time of execution to the Exchange for comparison of trade information and all compared transactions shall be cleared through the Options Clearing Corporation and shall be subject to the rules of the Options Clearing Corporation.

**Rule 1052. Responsibility Of Clearing Members For Exchange Options Transactions**

Every Clearing Member shall be responsible for the clearance of the Exchange options transactions of such Clearing Member and of each member or member organization who gives up the name of such Clearing Member in an Exchange options transaction, provided the Clearing Member has authorized such member or member organization to give up its name with respect to Exchange options transactions. This Rule will apply to all Clearing Members who either (i) have Restricted OCC Numbers with Authorized Member Organizations pursuant to Rule 1037, or (ii) have non-Restricted OCC Numbers.

**Rule 1053. Filing Of Trade Information**

At the time of execution, each member organization which is a clearing member of the Options Clearing Corporation shall be responsible for supplying to the Exchange trade information in a form prescribed by the Exchange, covering each Exchange options transaction for which such clearing member is responsible. The trade information shall show for each transaction (i) the identity of the purchasing clearing member and the writing clearing member given up at the time of execution, (ii) the underlying stock, Exchange-Traded Fund Share or foreign currency, as the case may be, (iii) the exercise price, (iv) the expiration month, (v) the number of option contracts, (vi) the premium per share of the underlying stock or the premium per unit of the underlying foreign currency, (vii) whether a purchase or a writing transaction, (viii) except for a transaction in a specialist's account, whether an opening or closing, (ix) the identity of the account of the clearing member in which the transaction was effected, (x) Reserved, (xi) whether a put or call, and (xii) such other information as may be required by the Exchange. Each member or member organization which is a clearing member of the Options Clearing Corporation shall be responsible to the Exchange in respect of all trade information filed with the Exchange on such form prescribed by the Exchange.

**Rule 1054. Verification Of Trades And Reconciliation Of Uncompared Trades**

A Clearing Member shall be obligated to compare all trades made through or on behalf of such member as soon as possible after such trades are made or after receiving notification thereof, reconcile all uncompared trades and advisory trades, and report all reconciliations, corrections and adjustments to the Exchange in accordance with such procedures as may be established by the Exchange from time to time. Such reconciliation report shall be filed with the Exchange prior to such cut-off hour as the Exchange may prescribe and shall be binding on the Clearing Member on whose behalf it is filed. The Exchange will consider all trades as executed and compared as of such cut-off hour.

**Rule 1055. Reporting Of Compared Trades To Options Clearing Corporation**

On each business day at or prior to such time as may be prescribed by the Options Clearing Corporation, the Exchange shall furnish the Options Clearing Corporation a report of each clearing member's compared trades based on the comparison service performed by the Exchange on that day. Only trades which have been compared shall be furnished by the Exchange to the

Options Clearing Corporation, and the Exchange shall assume no responsibility with respect to any uncomparated trade nor for any delays or errors in the reporting of trades for comparison.

**Rule 1056. Maintaining Office And Filing Signatures**

Every member organization which is a clearing member of the Options Clearing Corporation shall maintain an office for the purpose of comparing Exchange options transactions. Any such member organization may use for the purpose of these Rules the office of another member organization which is a clearing member of the Options Clearing Corporation. There shall be present at such office, between such hours as the Exchange shall from time to time fix, on every business day a representative of the member organization authorized to sign in the name of the member organization all instruments and transact all business requisite in connection with the comparison of Exchange options transactions.

**Rule 1057. U.S. Dollar-Settled Foreign Currency Option Closing Settlement Value**

U.S. dollar-settled foreign currency options are settled in U.S. dollars.

The closing settlement value for the U.S. dollar-settled FCO on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona shall be the Exchange Spot Price at 12:00:00 Eastern Time (noon) on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day prior to the expiration date unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances.

Neither the Exchange, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current settlement value or the closing settlement value resulting from an act, condition, or cause beyond the reasonable control of the Exchange including but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission, or delay in the reports of transactions in one or more underlying currencies or any error, omission or delay in the reports of the current settlement value or the closing settlement value by the Exchange.

The Exchange shall post the closing settlement value on its website or disseminate it through one or more major market data vendors.

**Rule 1058. Transfer of Positions**

(a) A member or member organization may transfer positions off the floor in any class of options listed on its books if the transfer involves one or more of the following events:

- (1) the dissolution of a joint account in which the remaining member or member organization assumes the positions of the joint account;

- (2) the dissolution of a corporation or partnership in which a former nominee of that corporation or partnership assumes the positions;
- (3) positions transferred as part of a member or member organization's capital contribution to a new joint account, partnership, or corporation;
- (4) the donation of positions to a not-for-profit corporation;
- (5) the transfer of positions to a minor under the Uniform Gifts to Minors Act;
- (6) a merger or acquisition resulting in a continuity of ownership or management; or
- (7) consolidation of accounts within a member or member organization.

(b) Members and member organizations must notify the Exchange in writing prior to effecting an off the floor transfer. The written notification must indicate the positions to be transferred and the reason for the transfer.

(c) Members and member organizations must transfer positions pursuant to this Rule at the same prices that appear on the books of the transferring member or member organization, and the transfer must indicate the date when the original trade was made. In the course of transferring positions, no position shall net itself against another position. Each member or member organization that is a party to a transfer of positions must make and retain records stating the nature of the transaction, the name of the counter-party, and any other information required by the Exchange.

#### **Rule 1059. In-Kind Exchange of Options Positions and ETF Shares**

Positions in options listed on the Exchange may be transferred off the Exchange by a member or member organization in connection with transactions to purchase or redeem creation units of ETF shares between an authorized participant and the issuer of such ETF shares, which transfer would occur at the price(s) used to calculate the net asset value of such ETF shares. For purposes of this Rule:

(a) an “authorized participant” is an entity that has a written agreement with the issuer of ETF shares or one of its service providers, which allows the authorized participant to place orders for the purchase and redemption of creation units (*i.e.*, specified numbers of ETF shares); and

(b) an “issuer of ETF shares” is an entity registered with the Commission as an open-ended management investment company under the Investment Company Act of 1940.

#### **Rule 1067. Precedence of Highest Bid and Lowest Offer**

The highest bid and the lowest offer shall have precedence in all cases.

#### **Rule 1068. Directed Orders**

(a) Specialists, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this rule.

(i) Definitions

(A) The term "Directed Order" means any order to buy or sell which has been directed to a particular Specialist, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System.

(B) The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, orders to the Exchange.

(C) The term "Directed Specialist, RSQT, or SQT" means a specialist, RSQT, or SQT that receives a Directed Order.

(ii) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Specialist, SQT or RSQT is quoting at the Exchange's best price, the Directed Order shall be automatically executed and allocated in accordance with Rule 1014(g)(viii).

(iii) When the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Specialist, RSQT, or SQT on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, the Directed Order shall be automatically executed and allocated to those quotations and orders at the NBBO in accordance with Exchange Rule 1014(g)(vii).

(iv) If the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be handled in accordance with Exchange rules.

**Rule 1070. Data Feeds and Trade Information**

(a) The following data feeds are offered by Phlx:

(1) **Top of PHLX Options ("TOPO")** is a direct data feed product that includes the Exchange's best bid and offer price, with aggregate size, based on displayable order and quoting interest on Phlx and last sale information for trades executed on Phlx. The data contained in the TOPO data feed is identical to the data simultaneously sent to the processor for the OPRA and subscribers of the data feed. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

(2) **PHLX Orders** is a real-time full limit order book data feed that provides pricing information for orders on the PHLX limit order book. PHLX Orders is currently provided as part of the TOPO Plus Orders data product. PHLX Orders provides real-time information to enable users to keep track of the single order book(s), single and Complex

Orders, and Complex Order Live Auction ("COLA") for all symbols listed on Phlx. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, leg information on complex strategies and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

- (3) **PHLX Depth of Market is a data product that provides:** (i) order and quotation information for individual quotes and orders on the PHLX book; (ii) last sale information for trades executed on Phlx; (iii) auction; and (iv) an Imbalance Message which includes the symbol, side of the market, size of matched contracts, size of the imbalance, and price of the affected series. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

(b) The following order and execution information is available to members:

- (1) **Clearing Trade Interface ("CTI")** is a real-time clearing trade update message that is sent to a member after an execution has occurred and contains trade details specific to that member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity.
- (2) **TradeInfo PHLX Interface**, a user interface, permits a member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) cancellation of open orders at the order, port or firm mnemonic level; (iii) a view of orders and executions; and (iv) download of orders and executions for recordkeeping purposes.

## **Rule 1072. Reserved**

### **Rule 1073. Kill Switch**

(a) Phlx Options Kill Switch is an optional tool that enables Phlx members and member organizations (hereinafter collectively "member") to initiate a message(s) to the Exchange's Phlx XL system ("System") to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Members may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the Phlx member when a Kill Switch request has been processed by the Exchange's System.

- (1) If quotes are cancelled by the Phlx member utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The Phlx member will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

- (2) If orders are cancelled by the Phlx member utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The Phlx member will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).
- (3) After quotes and/or orders are removed/cancelled by the Phlx member utilizing the Kill Switch, the Phlx member will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the Phlx member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Phlx member. The applicable Clearing Member also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

**Rule 1074. Detection of Loss of Communication**

(a) When the SQF Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and automatically cancel all of the member's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same Specialist or Registered Options Trader (collectively "Market Maker") ID and underlying issues.

- (1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF or FIX Port and the Client Application. The Heartbeat message sent by the member and subsequently received by the Exchange allows the SQF or FIX Port to continually monitor its connection with the member.
- (2) SQF Port is the Exchange's system component through which members communicate their quotes from the Client Application.
- (3) FIX Port is the Exchange's system component through which members communicate their orders from the Client Application.
- (4) Client Application is the system component of the member through which the Exchange member or member organization communicates its quotes and orders to the Exchange.

(b) When the FIX Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and if the member has elected to have its orders cancelled pursuant to Rule 1074(d) automatically cancel all open orders posted.

(c) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100)



milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each member and may not be disabled.

- (1) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The member may change the default setting systemically prior to each session of connectivity.
- (2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(d) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Phlx member elects to have its orders removed, in addition to the disconnect, the Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the member will be disconnected.

- (1) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The member may change the default setting systemically prior to each session of connectivity.
- (2) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(e) The trigger for the SQF and FIX Ports is event and Client Application specific. The automatic cancellation of the Market Maker's quotes for SQF Ports and open orders for FIX Ports entered into the respective SQF or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other Market Makers entered into SQF Ports or orders of the same or other members entered into the FIX Ports via a separate and distinct Client Application.

#### **Rule 1078. Reserved.**

#### **Rule 1080. Electronic Acceptance of Quotes and Orders**

(a) **Entry and Display of Orders and Quotes.** Members may enter orders and quotes into the System as specified below.

- (i) The Exchange offers members the following protocols for entering orders and quotes respectively:
- (A) "**Financial Information eXchange**" or "**FIX**" is an interface that allows members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.
  - (B) "**Specialized Quote Feed**" or "**SQF**" is an interface that allows Specialists, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Specialist, SQT or RSQT. Specialists, SQTs and RSQTs may only enter interest into SQF in their assigned options series.
  - (C) "**Options Floor Based Management System or ("FBMS")**" is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Options 8, Sections 28(e) and 29. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

(b) **Order Types.** The following order types may be submitted to the System:

- (1) **Market Order.** A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists, ROTs and Off-Floor Broker-Dealers may not submit Market Orders.
- (2) **Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

(3) **Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to Rule 1087(b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Rule 1017.

(4) **Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Specialists and ROTs may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

(A) A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

(B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.

(5) **All-or-None Order.** An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders.

(i) **Non-Displayed Contingency Orders.** A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.

(6) **Opening Sweep.** An Opening Sweep is a one-sided order entered by a Specialist or ROT through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order.** A Cancel-Replacement Order is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled

or reduced by the number of contracts that were executed. The replacement order will result in a loss of priority.

(8) **Qualified Contingent Cross Order** or **QCC Order**. A QCC Order is as that term is defined in Rule 1088.

(9) **PIXL Order**. A PIXL Order is as described in Rule 1087.

(10) **Legging Order**. A Legging Order is as the term is specified in Rule 1098(f)(iii)(C).

(11) **Directed Orders**. A Directed Order is as described in Rule 1068.

(c) **Time in Force** or **“TIF.”** The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) **Day**. If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel**. An Immediate-or-Cancel (“IOC”) Order entered with a TIF of “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).

(C) Orders entered into the Price Improvement XL (“PIXL”) Mechanism and Qualified Contingent Cross (“QCC”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

(3) **Opening Only**. An Opening Only (“OPG”) order is entered with a TIF of “OPG”. This order can only be executed in the Opening Process pursuant to Rule 1017. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. Any portion of the order that is not executed during the Opening Process is cancelled.

(4) **Good Til Cancelled**. A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

(d) Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Rule 1093 through FIX only.

(e) **Off-Floor Broker-Dealer Order.** An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Rule 1080(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and Public Customer-to-Public Customer Cross Orders subject to Rule 1087(a) and (f).

### **Rule 1081. Electronic Market Maker Obligations and Quoting Requirements**

For purposes of this rule an "electronic ROT" shall mean an SQT, RSQT, Specialist (including Remote Specialist), Directed SQT and Directed RSQT who enters electronic quotations into the Exchange's System.

(a) In registering as an electronic ROT, a member organization commits to various obligations. Transactions of an electronic ROT in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Electronic ROTs should not effect purchases or sales except in a reasonable and orderly manner. Ordinarily during trading hours, an electronic ROT must:

- (i) Maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.
- (ii) Engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of price relationships between option contracts of the same class.
- (iii) Compete with other electronic ROTs in all options in all capacities in which the electronic ROT is registered to trade.
- (iv) Make markets that will be honored for the number of contracts entered into the System in all options in which the electronic ROT is registered to trade.
- (v) Update quotations in response to changed market conditions in all options in which the electronic ROT is registered to trade.
- (vi) Maintain active markets in all options in which the electronic ROT is registered.
- (vii) Honor all orders attributed to the electronic ROT that the System routes to away markets pursuant to Rule 1080(m) of these Rules.

(b) If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic ROT will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic ROT is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of an ROT or in respect of any violation by an ROT pursuant to this rule.

(c) Electronic ROTs must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. On a daily basis, an electronic ROT must make markets consistent with the applicable quoting requirements specified below. A member organization will be required to meet each market making obligation separately. An SQT and RSQT who is also the Specialist will be held to the Specialist obligations in options series in which the Specialist is assigned and will be held to SQT and RSQT obligations in all other options series where assigned. An SQT or RSQT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate.

(i) Size Associated with Quotes. An electronic ROT's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic ROT is willing to buy or sell. The best bid and best offer submitted by an electronic ROT must have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract.

(ii) Two-Sided Quotes. An electronic ROT that enters a bid (offer) in a series of an option in which he is registered on Phlx must enter an offer (bid). These quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2).

(A) SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this Rule 1081(c)(ii) in any Quarterly Option Series, any adjusted option series, and any option series with an expiration of nine months or greater.

(i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(B) Specialists (including Remote Specialists), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Specialists shall be required to make two-sided markets pursuant to this rule in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

- (C) Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. A member organization shall be considered directed in all assigned options once the member organization receives a Directed Order in any option in which they are assigned and shall be considered a Directed SQT or Directed RSQT until such time as the member organization notifies the Exchange that they are no longer directed. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this Rule 1081(c)(ii) in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.
- (D) Specifically, the Exchange will calculate subparagraphs (A) - (C) above by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.
- (iii) Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.
- (iv) If a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (c)(ii) with respect to the affected quotes.

## **Rule 1082. Firm Quotations**

### **(a) Definitions.**

- (i) The term "disseminated price" shall mean the bid (or offer) price for an options series that is made available by the Exchange and displayed by a quotation vendor on a terminal or other display device.

- (ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:
- (A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, at least the sum of the size associated with limit orders, specialists' quotations, SQTs' quotations, and RSQTs' (as defined in Rule 1000(b)(60)) quotations.
- (B)
- (1) If an SQT or RSQT's (other than a Directed SQT or RSQT) quotation size in a particular series in a Streaming Quote Option is exhausted or removed by the Automated Quotation Adjustments pursuant to Rule 1099(c)(2), such SQT or RSQT's quotation shall be deleted from the Exchange's disseminated quotation until the time the SQT or RSQT revises his/her quotation.
- (2) Reserved.
- (3) Quote Exhaust. Respecting options that are traded on the Phlx XL II system ("Phlx XL II"), Quote Exhaust occurs when the Exchange's disseminated market at a particular price level includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order through the initial execution price. The initial execution price that gives rise to Quote Exhaust is known as the "reference price." Under Quote Exhaust, any order volume that is routed to away markets will be marked as an ISO.
- (a) Quote Exhaust Timer. When a Quote Exhaust occurs, the Phlx XL II system will initiate a "Quote Exhaust Timer" that will apply to all options traded on the Phlx XL II system, not to exceed one second, during which any Phlx XL II participant (including any participant(s) whose size was exhausted) may submit quotes, sweeps or orders at any price level.
- (b) During the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. The Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.
- If the remaining contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated and normal trading will resume.



- (c) **New Interest on the Opposite Side of the Market.** If the Exchange receives an order, quote or sweep on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that locks or crosses the reference price at any time during the Quote Exhaust Timer, it will execute immediately against the initiating quote or order at the reference price. If the initiating quote or order that caused the Quote Exhaust is exhausted, the Quote Exhaust Timer will be terminated. With respect to any order, quote or sweep received on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that is inferior to the reference price, the system will place any non-IOC order onto the book. Such non-IOC order on the book will be included in the first PBBO calculation following the end of the Quote Exhaust Timer. All non-marketable sweeps and IOC orders will be cancelled immediately if not executed and will not participate in the Quote Exhaust process.
- (d) **New Interest on the Same Side of the Market.** If the Exchange receives an order, quote or sweep on the same side of the market as the initiating quote or order during the Quote Exhaust Timer, the Phlx XL II system will cancel any such sweep or IOC order. If such new quote or order, other than an IOC order, is a market or marketable limit order or marketable quote (i.e., priced at or through the reference price) the Phlx XL II system will display it at the reference price, with a disseminated size that is the sum of such order and/or quote plus the remaining contracts in the initiating order or quote.
- (e) **End of the Quote Exhaust Timer.** At the end of the Quote Exhaust Timer, if there are still unexecuted contracts remaining in the initiating quote or order or any new interest on the same side of the market, the Phlx XL II system will calculate a new Phlx Best Bid/Offer ("PBBO"). The PBBO will include the remaining unexecuted portion of the initiating quote or order plus any new interest received on the same side of the market at the reference price, or if locking or crossing the ABBO, at one minimum trading increment away from the ABBO, for the full available size. The other side of the PBBO will be the actual Exchange interest at the best price.

The Phlx XL II system will conduct an Acceptable Range price "test" (as described below) to determine whether there is a valid next available price at which the Phlx XL II system may execute the remaining unexecuted contracts.

- (f) **Acceptable Range Test.** The Phlx XL II system will conduct an Acceptable Range Test to determine if the next available price on the Exchange is within an Acceptable Range. The Phlx XL II system will calculate the Acceptable Range for the next available price by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders).
- (g) **Quote Exhaust Resolution.** The Phlx XL II system will first determine whether to trade at the next available Phlx price by comparing it to the Acceptable Range

price (defined as, with respect to an initiating buy order, the highest price of the Acceptable Range, and, with respect to an initiating sell order, the lowest price of the Acceptable Range) and the Away Best Bid/Offer ("ABBO") price to establish a "Best Price."

- (i) With respect to an initiating buy order, the Best Price is the lowest price of:
  - (A) the next available Exchange offer; (B) the ABBO offer; or (C) the Acceptable Range price on the offer side of the market. With respect to an initiating sell order, the Best Price is the highest price of (D) the next available Exchange bid; (E) the ABBO bid; or (F) the Acceptable Range price on the bid side of the market.
- (ii) Initiating quote or order does not lock or cross Best Price. If the price of the initiating quote or order (if a limit order) does not lock or cross the Best Price, the Phlx XL II system will post the remaining portion of the initiating quote or order at its limit price and normal trading will resume.
- (iii) Initiating quote or order locks Best Price. If the initiating quote or order locks the Best Price, the system will execute, route if a routable order, and/or post, the initiating quote or order as follows:
  - (A) If the Best Price is the Exchange's next available price:
    - (1) standing alone, the system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size
    - (2) and is equal to the ABBO price, any remaining unexecuted routable order volume from the execution on the Exchange will be routed away. After such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;
    - (3) and is equal to the Acceptable Range price, any remaining unexecuted contracts from the execution on the Exchange will be posted at the Acceptable Range price;
    - (4) and is equal to both the ABBO price and the Acceptable Range price, any remaining order volume from the execution on the Exchange will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the Acceptable Range price.
  - (B) If the Best Price is the ABBO where the ABBO is not equal to the next Phlx price:

- (1) standing alone, the initiating order will be routed away up to the size of the ABBO and, after routing, any remaining unexecuted contracts from the initiating order will be posted on the Exchange at the ABBO price;
  - (2) and is equal to the Acceptable Range price, the initiating order will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;
  - (3) if the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price.
- (iv) Initiating quote or order crosses Best Price. If the initiating quote or order crosses the Best Price, the Phlx XL II system will execute, route order volume, and/or post the initiating quote or order as set forth below:
- (A) If the Best Price is the Exchange's next available price
- (1) standing alone, the Phlx XL II system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size;
  - (2) and is equal to the ABBO price, the Phlx XL II system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining order volume from the execution on the Exchange will be routed away to the ABBO market(s);
  - (3) and is equal to the Acceptable Range price, the Phlx XL II system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining volume from the execution on the Exchange will be posted at the Acceptable Range price for the remaining size, for a period of time not to exceed ten seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the Phlx XL II system will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.
  - (4) and is also equal to both the ABBO price and the Acceptable Range price, any remainder order volume from the execution on the Exchange will be routed away, and if after such routing, there still remain

unexecuted contracts, the remainder will be posted on the Phlx at the Acceptable Range price for a period not to exceed ten seconds, and then cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(B) If the Best Price is the ABBO:

- (1) standing alone, the initiating order will be routed away to the ABBO market(s);
- (2) and is equal to the Acceptable Range price, the initiating order will be routed away and if after routing there remain unexecuted contracts, the remainder of the order will be posted on the Phlx at the ABBO price for a period not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(C) If the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price for a period of time not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

- (v) Non-routable orders. If the initiating order is non-routable when the order would otherwise be routed according to the process described above, the order

will be posted on the Exchange at a price that is one minimum trading increment inferior to the Best Price so as not to lock an away market.

(vi) If, after trading at the Phlx and/or routing, there is a remainder of the initiating order, and such remainder is still marketable, the entire process of evaluating the Best Phlx price and the ABBO will be repeated until: (A) the order size is exhausted, or (B) the order reaches its limit price. If there still remain unexecuted contracts after routing but the order has reached its limit price, the remainder will be posted at the order's limit price, except that, when the limit price crosses the Acceptable Range Price, the remainder will be posted at the Acceptable Range Price for a period of time not to exceed ten seconds. During this up to ten second period, the Phlx XL II system will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. After such time period, the Acceptable Range Price becomes the Reference Price and Acceptable Trade Range (pursuant to Rule 1099) is applied to the remaining size of the order.

(4)

(a) If there are no offers both on the Exchange and on away markets in the affected series, market orders to buy in the affected series will be cancelled immediately, and an electronic report of such cancellation will be transmitted to the sender.

(b) If there are no offers on the Exchange and there are offers on away markets in the affected series, market orders to buy will be handled pursuant to Exchange Rule 1093.

(c) If there are no bids or a zero priced bid on the Exchange and there are no bids on away markets in the affected series, the Exchange will disseminate a bid price of zero, and market orders to sell will be handled pursuant to Exchange Rule 1080(i).

(d) If there are no bids or a zero priced bid on the Exchange and there are bids on away markets in the affected series, market orders to sell will be handled pursuant to Exchange Rule 1093.

(C) The Exchange shall disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

(1) the Exchange's disseminated bid or offer price increases or decreases;

(2) the size associated with the Exchange's disseminated bid or offer decreases; or

(3) the size associated with the Exchange's bid (offer) increases by an amount greater than or equal to a percentage (never to exceed 20%) of the size associated with previously disseminated bid (offer). Such percentage, which shall never exceed 20%, shall be determined on an issue-by-issue basis by the Exchange and announced to membership via Exchange circular.

(iii) The term "SEC Quote rule" shall mean rule 602 of Regulation NMS under the Securities Exchange Act of 1934, as amended.

(iv) The terms "customer," "responsible broker or dealer," and "specified persons" shall have the meaning set forth in the SEC Quote rule.

(b) (i) Except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. If the responsible broker or dealer is representing (as agent) a limit order, such responsible broker or dealer shall be responsible (as agent) up to the size of such limit order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such limit order to the extent provided in Rule 1015.

(ii) In the event an SQT, RSQT or specialist in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or specialist member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

(c) The requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.

Any exemption granted pursuant to paragraph (c)(iv) shall be in writing and shall set forth the basis upon which the exemption is granted.

(d) If responsible brokers or dealers receive an order to buy or sell a listed option at the disseminated price in an amount greater than the disseminated size, such responsible broker or dealer shall, within thirty (30) seconds of receipt of the order, (i) execute the entire order at the

disseminated price (or better), or (ii) execute that portion of the order equal to the disseminated size at the disseminated price (or better), and revise its bid or offer.

•• *Commentary:* -----

**.01** For purposes of this Rule 1082, the term "broker-dealer orders" includes orders for the account(s) of market makers on another exchange and Registered Options Traders ("ROTs") on the Exchange.

**.02** *Locked Markets.* In the event that an SQT, RSQT, and/or specialist's electronically submitted quotations interact with the electronically submitted quotations of other SQTs, RSQTs and/or the specialist, resulting in the dissemination of a "locked" quotation (e.g., \$1.00 bid - 1.00 offer), the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Rule 1089.

**.03** *Crossed Markets.* The Exchange will not disseminate an internally crossed market (e.g., \$1.10 bid, 1.00 offer). If an SQT, RSQT or specialist electronically submits a quotation ("incoming quotation") that would cross an existing quotation ("existing quotation"), the Exchange will change the incoming quotation such that it locks the existing quotation and automatically execute the locked quotations against each other in accordance with the allocation algorithm set forth in Rule 1089.

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**Rule 1083. Order Protection; Locked and Crossed Markets**  
**Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of Rules 1084-1087:

- (a) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.
- (b) "Bid" or "Offer" means the bid price or the offer price communicated by a member of an Eligible Exchange to any Broker/Dealer, or to any customer, at which it is willing to buy or sell, as either principal or agent, but shall not include indications of interest.
- (c) "Broker/Dealer" means an individual or organization registered with the SEC in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant to rule 15a-6 under the Exchange Act.
- (d) "Complex Trade" means: (i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular

investment strategy; or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by The Options Clearing Corporation.

(e) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.

(f) "Customer" means an individual or organization that is not a Broker/Dealer.

(g) "Eligible Exchange" means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (i) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (ii) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (iii) if the national securities exchange is not a party to the Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

(h) "Intermarket Sweep Order (ISO)" means a limit order for an options series that meets the following requirements:

(i) When routed to an Eligible Exchange, the order is identified as an ISO;

(ii) Simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.

(i) "Locked Market" means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an Eligible Options Class.

(j) "NBBO" means the national best bid and offer in an options series as calculated by an Eligible Exchange.

(k) "Non-Firm" means, with respect to Quotations, that members of a Eligible Exchange are relieved of their obligation to be firm for their Quotations pursuant to rule 602 under the Exchange Act.

(l) "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.



- (m) "Participant" means an Eligible Exchange that is a party to the Plan.
- (n) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.
- (o) "Protected Bid" or "Protected Offer" means a Bid or Offer in an options series, respectively, that:
- (i) is disseminated pursuant to the OPRA Plan; and
  - (ii) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.
- (p) "Quotation" means a Bid or Offer.
- (q) "Trade-Through" means a transaction in an option series at a price that is lower than a Protected Bid or higher than a Protected Offer.

**Rule 1084. Order Protection**

(a) *Avoidance of Trade-Throughs.* Except as provided in paragraphs (b) and (c) below, Members shall not effect Trade-Throughs.

(b) *Exceptions to Trade-Through Liability.* The provisions of paragraph (a) pertaining to the satisfaction of Trade-Throughs shall not apply under the following circumstances:

(i) If an Eligible Exchange repeatedly fails to respond within one second to incoming orders attempting to access its Protected Quotations, the Exchange may bypass those Protected Quotations by:

(A) notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

(B) assessing whether the cause of the problem lies with its own systems and, if so, taking immediate steps to resolve the problem;

Any time a determination to bypass Protected Quotations of an Eligible Exchange is made pursuant to this sub-paragraph, the Exchange must promptly document the reasons supporting such determination.

(ii) The transaction traded through a Protected Quotation being disseminated by an Eligible Exchange during a trading rotation;

(iii) The transaction that constituted the Trade-Through occurred when there was a Crossed Market;

(iv) The transaction that constitutes the Trade-Through is the execution of an order identified as an ISO;

- (v) The transaction that constitutes the Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Quotation;
- (vi) The Eligible Exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to execution of the Trade-Through, a Best bid or Best offer, as applicable, for the options series with a price that was equal or inferior to the price of the Trade-Through transaction;
- (vii) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;
- (viii) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;
- (ix) The transaction that constituted the Trade-Through was the execution of an order for which, at the time of receipt of the order, a Member had guaranteed an execution at no worse than a specified price (a "stopped order"), where:
  - (A) the stopped order was for the account of a Customer;
  - (B) the Customer agreed to the specified price on an order-by-order basis; and
  - (C) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution;
- (x) The transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop; or
- (xi) The transaction that constituted the Trade-Through was the execution of an order at a price that was not based, directly or indirectly, on the quoted price of the options series at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

**Rule 1086. Locked and Crossed Markets**

(a) *Prohibition.* Except for quotations that fall within the provisions of paragraph (b) of this Rule, Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation.

(b) *Exceptions.*

- (i) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment;

- (ii) The locking or crossing quotation was displayed at a time when there is a Crossed Market or;
- (iii) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

**Rule 1087. Price Improvement XL ("PIXL")**

A member may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in sub-paragraph (a)(6) below) it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule. The contract size specified in Rule 1087 as applicable to PIXL Orders shall apply to Mini Options. The execution of a PIXL Order that is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity will be governed by Rule 1087(a) and (f) ("Public Customer-to-Public Customer Cross Order").

- (a) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PIXL. A member (the "Initiating Member") may initiate an Auction provided all of the following are met:
  - (1) if the PIXL Order (except if it is a Complex Order) is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") is \$0.01, the Initiating Member must stop the entire PIXL Order at one minimum price improvement increment better than the NBBO on the opposite side of the market from the PIXL Order, and better than any limit order on the limit order book on the same side of the market as the PIXL Order.
  - (2) if the PIXL Order (except if it is a Complex Order) is for the account of a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is equal to or better than the NBBO and the internal market BBO (the "Reference BBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.
  - (3) If the PIXL Order (except if it is a Complex Order) is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (A) the Reference BBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (B) the PIXL Order's limit price (if the order is a limit order),

provided in either case that such price is at or better than the NBBO and the Reference BBO.

- (4) If the PIXL Order is a Complex Order and of a conforming ratio, as defined in Rule 1098(a)(i) and (a)(ix), the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (A) available on the Complex Order book regardless of the Complex Order book size; and (B) achievable from the best Phlx bids and offers for the individual options (an "improved net price"), provided in either case that such price is equal to or better than the PIXL Order's limit price. Complex Orders consisting of a ratio other than a conforming ratio will not be accepted. This subparagraph (4) shall apply to all Complex Orders submitted into PIXL.
- (5) PIXL Orders that do not comply with the requirements of sub-paragraphs (1), (2), (3), and (4) above are not eligible to initiate an Auction and will be rejected.
- (6) PIXL Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.
- (7) PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected.
- (8) An Initiating Order may not be a solicited order for the account of any Exchange specialist, SQT, RSQT or non-streaming ROT assigned in the affected series.

If any of the above criteria are not met, the PIXL Order will be rejected. Pursuant to Rule 1087(f), the Exchange will allow a Public Customer-to-Public Customer PIXL Order to trade on either the bid or offer, if the NBBO is \$0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting Public Customer at the execution price, and (3) \$0.01 is the Minimum Price Variation (MPV) of the option. The Exchange will continue to reject a PIXL Order to buy (sell) if the NBBO is only \$0.01 wide and the Agency order is stopped on the bid (offer) if there is a resting order on the bid (offer).

(b) Auction Process. Only one Auction may be conducted at a time in the same series or same strategy, otherwise the orders will be rejected. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and PIXL Auction Notification ("PAN").

- (A) To initiate the Auction (except if it is a Complex Order), the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a "stop price"); (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PIXL Order will be stopped at the better of the NBBO or the

Reference BBO on the Initiating Order side; or (iii) that it is willing to either: a) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); b) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or c) stop the entire order at the better of the NBBO or Reference BBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a limit order on the book, the stop price must be at least one minimum price improvement increment better than the booked limit order's limit price. Once the Initiating Member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (i)-(iii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution.

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(i). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

(B) To initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (ii) that it is willing to either: a) stop the entire order at a single stop price and automatch PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or (b) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price. Once the Initiating Member has submitted a PIXL Complex Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (i)-(ii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

When starting a PIXL Complex Order Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(iv). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Complex Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

- (C) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side and size and option series of the PIXL Order will be sent over the Exchange's TOPO data feed pursuant to Rule 1070(a)(1) and Specialized Quote Feed pursuant to Rule 1080(a)(i)(B).
- (D) The Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.
- (E) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.
- (F) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.
- (G) (i) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price (except if it is a Complex Order) shall be the minimum price improvement increment established pursuant to Rule 1080(i)(A)(1) above.  
  
(ii) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price in the case of a Complex Order shall be .01.
- (H) A PAN response size at any given price point may not exceed the size of the PIXL Order. A PAN response with a size greater than the size of the PIXL Order will be immediately cancelled.
- (I) A PAN response (except if it is a Complex Order) must be equal to or better than the NBBO and the Reference BBO at the time of receipt of the PAN response. A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Rule 1098(a) at the time of receipt of the PAN response. PAN responses

may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the better of the NBBO or Reference BBO will be immediately cancelled. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be cancelled.

- (J) PAN responses on the same side of the market as the PIXL Order are considered invalid and will be immediately cancelled.
  - (K) Multiple PAN responses from the same member may be submitted during the Auction. Multiple orders at a particular price point submitted by a member in response to a PAN may not exceed, in the aggregate, the size of the PIXL Order.
- (2) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (A) through (D) below, with the PIXL Order executing pursuant to paragraph (3)(A) through (C) below.
- (A) The end of the Auction period;
  - (B) For a PIXL Auction (except if it is a Complex Order), any time the Reference BBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order;
  - (C) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order (defined for these purposes as a "Complex PIXL Order" or, as the context requires, a "PIXL Order"); or
  - (D) Any time there is a trading halt on the Exchange in the affected series.
- (3) If the situations described in sub-paragraphs (2)(B), (C), or (D) above occur, the entire PIXL Order will be executed at: (A) in the case of the Reference BBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least one minimum price improvement increment better than the price of such limit order at the time of the conclusion of the Auction; (B) in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order, the stop price against executable PAN responses and executable Complex Orders using the allocation algorithm in sub-paragraph (5)(B)(iv)a) through d); or (C) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PIXL Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

- (4) An unrelated market or marketable limit order (against the PBBO) on the opposite side of the market from the PIXL Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. In the case of a Complex PIXL Auction, an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order as well as orders for the individual components of the Complex Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (5) below.
- (5) Order Allocation. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s) as follows:
  - (A) Public Customer orders shall have priority at each price level.
  - (B) After Public Customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses as follows:
    - (i) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in Rule 1089(a)(1) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.
    - (ii) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Rule 1089(a)(1). Any remaining contracts shall be allocated to the Initiating Member.



- (iii) In the case of a PIXL (except if it is a Complex Order), if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:
- a. first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d) at each price point;
  - b. next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Rule 1089(a)(1). Any remaining contracts shall be allocated to the Initiating Member.
- (iv) In the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated at a given price in the following order: a) to Public Customer Complex Orders and PAN responses in time priority; b) to SQT, RSQT, and Floor Market Maker Complex Orders and PAN responses on a size pro-rata basis; c) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and d) to quotes and orders which comprise the cPBBO at the end of the Auction with Public Customer interest being satisfied first in time priority, then to SQT, RSQT, and

Floor Market Maker interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. If the final price point is equal to the stop price, the Initiating Member will be allocated 40% (or 50% if matching only one other participant) after Public Customer Complex Orders and PAN responses have been satisfied, thereafter the allocation will continue as stipulated in b) through d) of this sub-paragraph. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.

- (v) In the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:
- a. First to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, if such cPBBO is better than the NWT price, pursuant to the algorithm set forth above in (b)(5)(B)(iv)a) through d) of this rule;
  - b. Next, to Complex Orders and PAN responses, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after Public Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after Public Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (b)(5)(B)(iv)a) through d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.
- (vi) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size. Where the allocation of contracts results in remaining amounts, the number of contracts to be allocated shall be rounded down to the nearest integer. If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating Member only if the Initiating Member did not otherwise receive an allocation. If there are contracts remaining, such contracts shall be allocated for simple interest after

rounding by randomly assigning all ROTs an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order, quote or sweep is being traded, except with respect to Complex Orders, which allocation is described in Rule 1098. In the event that there are remaining contracts to be allocated for interest after rounding, such remaining contracts will be allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. Remaining shares will be allocated in time priority for Complex Orders. The allocation will account for Surrender, if applicable.

- (vii) A Complex PIXL Order consisting of a stock/ETF component will not execute against interest comprising the cPBBO at the end of the Auction.
- (6) If there are PAN responses (except if it is a Complex Order) that cross the then-existing better of the Reference BBO and NBBO (provided such NBBO is not crossed) or Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s).
- (7) If the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the limit order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.
- (8) If the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.
- (9) Any unexecuted PAN responses will be cancelled.
- (10) Complex PIXL Orders with stock/ETF components.
  - (i) Member organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market

("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade orders containing a stock/ETF component.

- (ii) Where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order (together with the Initiating Order, Complex Order, or PAN response, as applicable) to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading.
  - (iii) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Initiating Order, Complex Order, and/or PAN response to the entering member organization. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.
- (11) *PIXL ISO Order.* A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to Rule 1087 without regard for better priced Protected Bids/Offers (as defined in Rule 1083) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange's book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order.
- (c) The PIXL Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule 1087 and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 if an Initiating Member submits a PIXL Order (initiating an Auction) and also submits its own PAN response in the same Auction.
  - (d) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PIXL Order, will be deemed

conduct inconsistent with just and equitable principles of trade and a violation of Rule 707.

- (e) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PIXL Auction to conclude before the end of the PIXL Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 to engage in a pattern of conduct where the Initiating Member breaks up a PIXL Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in subparagraph (b)(5) above.
- (f) In lieu of the procedures in paragraphs (a) - (b) above, an Initiating Member may enter a PIXL Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting Public Customer Complex Order.

Rule 1080(c)(ii)(C) prevents an Order Entry Firm from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 1080(c)(ii)(C) for a firm to circumvent Rule 1080(c)(ii)(C) by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PIXL customer-to-customer immediate crosses.

- (g) There will be no minimum size requirement for orders to be eligible for the Auction.

#### **Rule 1088. Qualified Contingent Cross Order**

(a) A Qualified Contingent Cross Order is comprised of an originating electronic order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

- (1) Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no Public Customer orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO.
  - (A) Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.
  - (B) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 1034.
- (2) Qualified Contingent Cross Orders shall only be submitted electronically from off the Floor to the System. Order Entry Firms must maintain books and records demonstrating that each Qualified Contingent Cross Order was routed to the Exchange System from off of the Floor. Any Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered from on the Floor in violation of this Rule.
- (3) A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:
  - (A) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;
  - (B) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;
  - (C) the execution of one component is contingent upon the execution of all other components at or near the same time;
  - (D) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;
  - (E) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and
  - (F) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

•• *Commentary:* -----

**.01** Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of QCC Orders.

All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of QCC Orders, except that an incoming QCC Order with a size greater than or equal to the size of a resting Public Customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

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**Rule 1089. Electronic Execution Priority and Processing in the System**

(a) Execution Algorithm - The Exchange will apply a Size Pro-Rata execution algorithm to electronic orders, unless otherwise specified. The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. If the result is not a whole number, it will be rounded down to the nearest whole number, unless otherwise specified. Size Pro-Rata Priority shall mean that resting orders and quotes in the order book are prioritized according to price. If there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes proportionally according to size, based on the total number of contracts available to be executed at that price.

(1) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange will apply the following designated market participant priority overlays. No participant shall be entitled to receive a number of contracts that is greater than the displayed size that is associated with their quotation or order.

(A) **Public Customer Priority:** the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer interest at the same price, provided the Public Customer order is an executable order. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System.

(B) **Enhanced Specialist Priority:** A Specialist may be assigned by the Exchange in each option class in accordance with Phlx Rule 1020. After all Public Customer orders have been fully executed, provided the Specialist's quote is at the better of the internal PBBO, excluding all-or-none orders that cannot be satisfied, or the NBBO the Specialist may be afforded a participation entitlement. The Specialist shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such Specialist. The Specialist shall be entitled to receive the allocation described in this subparagraph 1089(a)(1)(B)(i), unless the order is a Directed Order and the Specialist is not the DROT.

(i) When the Specialist is at the same price as an SQT, RSQT or non-SQT ROT (collectively "ROTs") and the number of contracts is greater than 5, the Specialist shall receive the greater of:

- (a) (i) 60% of remaining interest if there is one other ROT at that price;(ii) 40% of remaining interest if there are two other ROTs at that price; or (iii) 30% of remaining interest if there are more than two other ROTs at that price ( the "Specialist Participation Entitlement"); or
- (b) the Specialist's Size Pro-Rata share under subparagraph (a)(1)(E) ("ROT Priority"); or
- (c) the Directed ROT ("DROT") participation entitlement, if any, set forth in subparagraph (a)(1)(C) below (if the order is a Directed Order and the Specialist is also the DROT) ("DROT Priority").

When the Specialist is also the DROT the Specialist/DROT does not participate in the below ROT Priority at (a)(i)(E).

**(C) DROT Priority:** After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Rule 1068, provided the DROT's quote or market maker order is at the better of the internal PBBO excluding all-or- none orders that cannot be satisfied, or the NBBO, the DROT will be afforded a participation entitlement.

- (i) When the DROT is at the same price as an SQT, RSQT or non-SQT ROT (collectively "ROTs"), pursuant to the DROT participation entitlement, the DROT shall receive, with respect to a Directed Order, the greater of:
  - (a) 40% of remaining interest; or
  - (b) the DROT's Size Pro-Rata share under subparagraph (a)(1)(E) ("ROT Priority"); or
  - (c) the Specialist Participation Entitlement in subparagraph (a)(1)(B), if the DROT is also the Specialist

When a DROT Priority is applied, the DROT does not participate in the below ROT Priority at (a)(i)(E).

If there are multiple quotes or orders for the same DROT at the same price which are at the better of the internal PBBO, excluding all-or-none orders that cannot be satisfied, or the NBBO when the Directed Order is received, the DROT participation entitlement shall apply only to the DROT quote or order which has the highest priority. The DROT quote or order that received the Directed Order may not receive any further allocation of the Directed Order, except as noted in subparagraph (a)(1)(E) below. If rounding would result in an allocation of less than one contract, the DROT shall receive one contract.



- (D) **Entitlement for Orders of 5 contracts or fewer.** This Entitlement for Orders of 5 contracts or fewer shall be allocated to the Specialist as described below. The allocation will only apply after the Opening Process and shall not apply to auctions. A Specialist is not entitled to receive a number of contracts that is greater than the size that is associated with its quote. On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%.
- (i) A Specialist is entitled to priority with respect to Orders of 5 contracts or fewer, including when the Specialist is also the DROT, if the Specialist has a quote at the better of the internal PBBO, excluding all-or-none orders that cannot be satisfied, or the NBBO, with no other Public Customer or DROT interest with a higher priority.
- (ii) If the Specialist's quote is at the better of the internal PBBO, excluding all-or-none orders that cannot be satisfied, or the NBBO, with other Public Customer (including when the Specialist is also the DROT) or other DROT interest with a higher priority at the time of execution, a Specialist is not entitled to priority with respect to Orders of 5 contracts or fewer, however the Specialist is eligible to receive such contracts pursuant to Rule 1089(a)(1)(E); thereafter orders will be allocated pursuant to Rule 1089(a)(1)(F).
- (E) **ROT Priority:** After all Public Customer orders have been fully executed, provided the Public Customer order is an executable order, and Specialist Participation Entitlement or DROT Priority are applied, if applicable, remaining ROT interest shall have priority over all other orders at the same price. If there are two or more ROT quotes or orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm.
- (F) **Odd Lot Allocation:** If there are contracts remaining after ROT Priority is applied, such contracts shall be allocated by randomly assigning all ROTs (including the Specialist or DROT) an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the ROT, is at the best price at which the order, quote or sweep is being traded.
- (G) **All Other Remaining Interest:** If there are contracts remaining after all ROT interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm. In the event that there are remaining contracts to be allocated for interest after rounding, which includes orders of all remaining market participants, such remaining contracts will be allocated in time priority provided the interest is at the best price at which the order is being traded.
- (2) A market maker is entitled only to an Enhanced Specialist Allocation pursuant to Rule 1089(a)(1)(B) or the Entitlement for Orders of 5 contracts or fewer pursuant to Rule 1089(a)(1)(D) on a quote or the DROT Priority pursuant to Rule 1089(a)(1)(C) on a quote or market maker order.

**Rule 1090. Mass Cancellation of Trading Interest**

A member or member organization may cancel any bids, offers, and orders in any series of options by requesting Phlx Market Operations staff to effect such cancellation as per the instructions of the member or member organization.

**Rule 1091. Cancellation of Orders and Error Account**

(a) The Exchange or NES may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, NES, or a routing destination. The Exchange or NES shall provide notice of the cancellation to affected member organizations as soon as practicable.

(b) NES shall maintain an error account for the purpose of addressing positions that result from a technical or systems issue at NES, the Exchange, a routing destination, or a nonaffiliate third-party Routing Broker that affects one or more orders ("error positions").

- (i) For purposes of this rule, an error position shall not include any position that results from an order submitted by a member organization to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.
- (ii) Except as provided in subparagraph (iii) below, NES shall not (i) accept any positions in its error account from an account of a member organization, or (ii) permit any member organization to transfer any positions from the member organization's account to NES' error account.
- (iii) If a technical or systems issue results in the Exchange not having valid clearing instructions for a member organization to a trade, NES may assume that member organization's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

(c) In connection with a particular technical or systems issue, NES or the Exchange shall either (i) assign all resulting error positions to member organizations in accordance with subparagraph (1) below, or (ii) have all resulting error positions liquidated in accordance with subparagraph (ii) below. Any determination to assign or liquidate error positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.

- (i) NES or the Exchange shall assign all error positions resulting from a particular technical or systems issue to the member organizations affected by that technical or systems issue if NES or the Exchange:
  - (A) determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the member organizations affected by that technical or systems issue;

(B) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the member organizations affected by that technical or systems issue; and

(C) has not determined to cancel all orders affected by that technical or systems issue in accordance with paragraph (a) above.

(ii) If NES or the Exchange is unable to assign all error positions resulting from a particular technical or systems issue to all of the affected member organizations in accordance with subparagraph (c)(i) above, or if NES or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with paragraph (a) above, then NES shall liquidate the error positions as soon as practicable. NES shall:

(A) provide complete time and price discretion for the trading to liquidate the error positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

(B) establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and NES/the Exchange associated with the liquidation of the error positions.

(d) NES and the Exchange shall make and keep records to document all determinations to treat positions as error positions and all determinations for the assignment of error positions to member organizations or the liquidation of error positions, as well as records associated with the liquidation of error positions through the third-party broker-dealer.

### **Rule 1092. Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any member or member organization to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) *Definitions.*

(1) *Customer.* For purposes of this Rule, a Customer shall not include any broker-dealer or professional.

(2) *Erroneous Sell/Buy Transaction.* For purposes of this Rule, an "erroneous sell transaction" is one in which the price received by the person selling the option is

erroneously low, and an "erroneous buy transaction" is one in which the price paid by the person purchasing the option is erroneously high.

(3) *Official*. For purposes of this Rule, an Official is an Options Exchange Official as defined in Rule 1(w).

(4) *Size Adjustment Modifier*. For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<b>Number of Contracts per Execution</b>	<b>Adjustment - Theoretical Prices TP Plus/Minus</b>
1-50	N/A
51-250	2 times adjustment amount
251-1000	2.5 times adjustment amount
1001 or more	3 times adjustment amount

(b) *Theoretical Price*. Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in sub-paragraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Commentary .05 of this Rule when determining Theoretical Price.

(1) *Transactions at the Open*. For a transaction occurring as part of the Opening Process (as defined in Rule 1017) the Exchange will determine the Theoretical Price if there is no NBB or NBO for the affected series just prior to the erroneous transaction or if the bid/ask differential of the NBB and NBO just prior to the erroneous transaction is equal to or greater than the Minimum Amount set forth in the chart contained in sub-paragraph (b)(3) below. If the bid/ask differential is less than the Minimum Amount, the Theoretical Price is the NBB or NBO just prior to the erroneous transaction.

(2) *No Valid Quotes*. The Exchange will determine the Theoretical Price if there are no quotes or no valid quotes for comparison purposes. Quotes that are not valid are:

- (A) all quotes in the applicable option series published at a time where the last NBB is higher than the last NBO in such series (a "crossed market");
- (B) quotes published by the Exchange that were submitted by either party to the transaction in question;
- (C) quotes published by another options exchange if either party to the transaction in question submitted the quotes in the series representing such options exchange's best bid or offer, provided that the Exchange will only consider quotes invalid on other options exchanges in up to twenty-five (25) total options series that the party identifies to the Exchange the quotes which were submitted by such party and published by other options exchanges; and
- (D) quotes published by another options exchange against which the Exchange has declared self-help.
- (3) *Wide Quotes.* The Exchange will determine the Theoretical Price if the bid/ask differential of the NBB and NBO for the affected series just prior to the erroneous transaction was equal to or greater than the Minimum Amount set forth below and there was a bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction. If there was no bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction then the Theoretical Price of an option series is the last NBB or NBO just prior to the transaction in question, as set forth in paragraph (b) above.

<b>Bid Price at Time of Trade</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.75
\$2.00 to \$5.00	\$1.25
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.50
Above \$20.00 to \$50.00	\$3.00
Above \$50.00 to \$100.00	\$4.50
Above \$100.00	\$6.00

(c) *Obvious Errors.*

- (1) *Definition.* For purposes of this Rule, an Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to \$10.00	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50
Above \$100.00	\$2.00

- (2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of an Obvious Error must notify an Official in the manner specified from time to time by the Exchange in a notice distributed to members and member organizations. Such notification must be received by an Official within the timeframes specified below:
- (A) *Customer Orders.* For an execution of a Customer order, a filing must be received by the Exchange within thirty (30) minutes of the execution, subject to sub-paragraph (C) below; and
- (B) *"Non-Customer" Orders.* For an execution of any order other than a Customer order, a filing must be received by the Exchange within fifteen (15) minutes of the execution, subject to sub-paragraph (C) below.
- (C) *Linkage Trades.* Any other options exchange will have a total of forty-five (45) minutes for Customer orders and thirty (30) minutes for non-Customer orders, measured from the time of execution on the Exchange, to file with the Exchange for review of transactions routed to the Exchange from that options exchange and executed on the Exchange ("linkage trades"). This includes filings on behalf of another options exchange filed by a third-party routing broker if such third-party broker identifies the affected transactions as linkage trades. In order to facilitate timely reviews of linkage trades the Exchange will accept filings from either the other

options exchange or, if applicable, the third-party routing broker that routed the applicable order(s). The additional fifteen (15) minutes provided with respect to linkage trades shall only apply to the extent the options exchange that originally received and routed the order to the Exchange itself received a timely filing from the entering participant (i.e., within 30 minutes if a Customer order or 15 minutes if a non-Customer order).

(3) *Acting on Own Motion.* The President or designee thereof, who is an officer of the Exchange (collectively "Exchange officer") may review a transaction believed to be erroneous on his/her own motion in the interest of maintaining a fair and orderly market and for the protection of investors. A transaction reviewed pursuant to this paragraph may be nullified or adjusted only if it is determined by the Exchange officer that the transaction is erroneous in accordance with the provisions of this Rule, provided that the time deadlines of sub-paragraph (c)(2) above shall not apply. The Exchange officer shall act as soon as possible after becoming aware of the transaction, and ordinarily would be expected to act on the same day that the transaction occurred. In no event shall the Exchange officer act later than 8:30 a.m. Eastern Time on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with paragraph (l) below; however, a determination by an Exchange officer not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Exchange officer's own motion is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of this Rule, no additional relief may be granted under this provision.

(4) *Adjust or Bust.* If it is determined that an Obvious Error has occurred, the Exchange shall take one of the actions listed below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) *Non-Customer Transactions.* Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

(B) *Customer Transactions.* Where at least one party to the Obvious Error is a Customer, the trade will be nullified, subject to subparagraph (C) below.

(C) If any member or member organization submits requests to the Exchange for review of transactions pursuant to this rule, and in aggregate that member or member organization has 200 or more Customer transactions under review concurrently and the orders resulting in such transactions were submitted during the course of 2 minutes or less, where at least one party to the Obvious Error is a non-Customer, the Exchange will apply the non-Customer adjustment criteria set forth in sub-paragraph (A) above to such transactions.

(d) *Catastrophic Errors.*

(1) *Definition.* For purposes of this Rule, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.50
\$2.00 to \$5.00	\$1.00
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.00
Above \$20.00 to \$50.00	\$2.50
Above \$50.00 to \$100.00	\$3.00
Above \$100.00	\$4.00

(2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of a Catastrophic Error must notify an Official in the manner specified from time to time by the Exchange in a notice distributed to members and member organizations. Such notification must be received by an Official by 8:30 a.m. Eastern Time on the first trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify an Official within 45 minutes after the close of trading that same day.

(3) *Adjust or Bust.* If it is determined that a Catastrophic Error has occurred, the Exchange shall take action as set forth below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone. In the event of a Catastrophic Error, the execution price of the transaction will be adjusted by the Official



pursuant to the table below. Any Customer order subject to this sub-paragraph will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$2.00	\$0.50	\$0.50
\$2.00 to \$5.00	\$1.00	\$1.00
Above \$5.00 to \$10.00	\$1.50	\$1.50
Above \$10.00 to \$20.00	\$2.00	\$2.00
Above \$20.00 to \$50.00	\$2.50	\$2.50
Above \$50.00 to \$100.00	\$3.00	\$3.00
Above \$100.00	\$4.00	\$4.00

(e) *Significant Market Events.*

(1) *Definition.* For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

(A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst- Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:

- (i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times
- (ii) the contract multiplier for each traded contract; times

(iii) the number of contracts for each trade; times

(iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in subparagraph (e)(3)(A) below.

(B) Transactions involving 500,000 options contracts are potentially erroneous;

(C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;

(D) 10,000 transactions are potentially erroneous.

(2) *Coordination with Other Options Exchanges.* To ensure consistent application across options exchanges, in the event of a suspected Significant Market Event, the Exchange shall initiate a coordinated review of potentially erroneous transactions with all other affected options exchanges to determine the full scope of the event. When this paragraph is invoked, the Exchange will promptly coordinate with the other options exchanges to determine the appropriate review period as well as select one or more specific points in time prior to the transactions in question and use one or more specific points in time to determine Theoretical Price. Other than the selected points in time, if applicable, the Exchange will determine Theoretical Price in accordance with paragraph (b) above.

(3) *Adjust or Bust.* If it is determined that a Significant Market Event has occurred then, using the parameters agreed as set forth in subparagraph (e)(2) above, if applicable, an Official will determine whether any or all transactions under review qualify as Obvious Errors. The Exchange shall take one of the actions listed below with respect to all transactions that qualify as Obvious Errors pursuant to subparagraph (c)(1) above. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) The execution price of each affected transaction will be adjusted by an Official to the price provided below unless both parties agree to adjust the transaction to a different price or agree to bust the trade. In the context of a Significant Market Event, any error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

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(B) Where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

(4) *Nullification of Transactions.* If the Exchange, in consultation with other options exchanges, determines that timely adjustment is not feasible due to the extraordinary nature of the situation, then the Exchange will nullify some or all transactions arising out of the Significant Market Event during the review period selected by the Exchange and other options exchanges consistent with this paragraph. To the extent the Exchange, in consultation with other options exchanges, determines to nullify less than all transactions arising out of the Significant Market Event, those transactions subject to nullification will be selected based upon objective criteria with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

(5) *Final Rulings.* With respect to rulings made pursuant to this paragraph, the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. Accordingly, rulings by the Exchange pursuant to this paragraph are non-appealable.

(f) *Trading Halts.* The Exchange shall nullify any transaction that occurs during a trading halt in the affected option on the Exchange pursuant to Commentary .03 of this Rule.

(g) *Erroneous Print in Underlying.* A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies an Official in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify an Official within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market's notification.

(h) *Erroneous Quote in Underlying.* A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in subparagraph (c)(4) this Rule, provided a party notifies an Official in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15- second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous

transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify an Official in accordance with sub-paragraph (c)(2) above.

(i) *Stop (and Stop-Limit) Order Trades Triggered by Erroneous Trades.* Transactions resulting from the triggering of a stop or stop-limit order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies an Official in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify an Official within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the stop or stop-limit order.

(j) *Linkage Trades.* If the Exchange routes an order pursuant to the Plan (as defined in Rule 1083(n)) that results in a transaction on another options exchange (a "Linkage Trade") and such options exchange subsequently nullifies or adjusts the Linkage Trade pursuant to its rules, the Exchange will perform all actions necessary to complete the nullification or adjustment of the Linkage Trade.

(k) *Verifiable Disruption or Malfunction of Exchange Systems.* Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of Exchange execution, dissemination, or communication systems that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange system error, and repeatedly traded). Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible where there is Exchange documentation providing that the member sought to update or cancel the quote/order.

(l) *Appeals.* If a party affected by a determination made under this Rule so requests within the time permitted, the Exchange Review Council will review decisions made under this Rule. A request for review under this paragraph must be made within 30 minutes after a party receives verbal notification of a final determination by an Official under this Rule, except that if such notification is made after 3:30 p.m. Eastern Time, either party has until 9:30 a.m. Eastern Time on the next trading day to request a review. Such a request for review must be in writing or otherwise documented. The Exchange Review Council shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 3:30 p.m. on the day of the transaction or where the request is properly made the next trade day. Any determination by an Official or the Exchange Review Council shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration. The party initiating the appeal shall be assessed a \$500.00 fee if the Exchange Review Council upholds the decision of the Official. In addition, in instances where the Exchange, on behalf of a member or member organization, requests a determination by another market center that a transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant member or member organization.

*Commentary:* -----

**.01 Complex Order Executions.** If both parties to a trade that is one component of a complex order execution are parties to all of the trades that together comprise the execution of a complex order at a single net debit or credit, then if one of those component trades can be nullified under this Rule 1092, all component trades that were part of the same complex order shall be nullified as well.

**.02** For the purposes of this Rule, to the extent the provisions of this Rule would result in the Exchange applying an adjustment of an erroneous sell transaction to a price lower than the execution price or an erroneous buy transaction to a price higher than the execution price, the Exchange will not adjust or nullify the transaction, but rather, the execution price will stand.

**.03 Trading Halts.** Trades on the Exchange will be nullified when: (A) The trade occurred during a trading halt in the affected option on the Exchange; (B) with respect to equity options (including options overlying ETFs), the trade occurred during a regulatory halt as declared by the primary market for the underlying security; (C) Respecting index options, the trade occurred during a trading halt on the primary market in (y) underlying securities representing more than 10 percent of the current index value for stock index options, or (z) either component security of an Alpha Index for Alpha Index options; or

(D) Respecting Treasury security options, the trade occurred during a trading halt of the underlying Treasury security instituted by the United States Government.

**.04 Complex Orders and Stock-Option Orders.**

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance

with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of Rule 1092, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

**.05 Exchange Determining Theoretical Price.** For purposes of this Rule, when the Exchange must determine Theoretical Price pursuant to subparagraphs (b)(1)-(3) of this Rule (i.e., at the open, when there are no valid quotes or when there is a wide quote), then the Exchange will determine Theoretical Price as follows.

- (a) The Exchange will request Theoretical Price from the third party vendor defined in paragraph (d) below ("TP Provider") to which the Exchange and all other options exchanges have subscribed. The Exchange will apply the Theoretical Price provided by the TP Provider, except as otherwise described below.
- (b) To the extent an Official of the Exchange believes that the Theoretical Price provided by the TP Provider is fundamentally incorrect and cannot be used consistent with the maintenance of a fair and orderly market, the Official shall contact the TP Provider to notify the TP Provider of the reason the Official believes such Theoretical Price is inaccurate and to request a review and correction of the calculated Theoretical Price. The Exchange shall also promptly provide electronic notice to other options exchanges that the TP Provider has been contacted consistent with this paragraph and include a brief explanation of the reason for the request.

- (c) An Official of the Exchange may determine the Theoretical Price if the TP Provider has experienced a systems issue that has rendered its services unavailable to accurately calculate Theoretical Price and such issue cannot be corrected in a timely manner.
- (d) The current TP Provider to which the Exchange and all other options exchanges have subscribed is: CBOE Livevol, LLC. Neither the Exchange, the TP Provider, nor any affiliate of the TP Provider (the TP Provider and its affiliates are referred to collectively as the "TP Provider"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of the TP Provider pursuant to this Commentary .05. The TP Provider does not guarantee the accuracy or completeness of the calculated Theoretical Price. The TP Provider disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such Theoretical Price. Neither the Exchange nor the TP Provider shall have any liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the use of such Theoretical Price or arising out of any errors or delays in calculating such Theoretical Price.

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### **Rule 1093. Away Markets and Order Routing**

(a) Phlx offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("OC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. For purposes of this rule, the Phlx's best bid or offer or "PBBO" does not include All-or-None Orders or stop orders which have not been triggered and the "internal PBBO" shall refer to the actual better price of an order resting on Phlx's Order Book, which is not displayed, but available for execution, excluding Allor- None Orders. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. An order exposure alert is sent if the order size is modified. Exposure notifications will be sent to participants in accordance with the routing procedures described in Rule 1093(a)(iii) below except if an incoming order is joining an already established PBBO price when the ABBO is locked or crossed with the PBBO, in which case such order will join the established PBBO price and no exposure notification will be sent. For purposes of this rule Phlx's opening process is governed by Rule 1017 and includes an opening after a trading halt ("Opening Process").

- (i) **Priority of Routed Orders.** Orders sent to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other

orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

(ii) Entering member organizations whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.

(A) The Exchange shall route orders in options via Nasdaq Execution Services, LLC ("NES"), a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. NES serves as the Routing Facility of the Exchange (the "Routing Facility"). The sole use of the Routing Facility by the System will be to route orders in options listed and open for trading on the System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange and, in addition, where one component of a Complex Order is the underlying security, to execute and report such component otherwise than on the Exchange, pursuant to Rule 1098(h). The Routing Facility is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Securities Exchange Act of 1934, as amended.

(B) Use of NES to route orders to other market centers is optional. Parties that do not desire to use NES must designate orders as not available for routing (a DNR Order, as described in subparagraph (iii)(A) below).

(C) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the Routing Facility, and any other entity, including any affiliate of the Routing Facility; or, where there is a routing broker, the Exchange, the Routing Facility and any routing broker, and any other entity, including any affiliate of the routing broker (and if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services).

(D) The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.



- (E) *Market Access*. In addition to the Exchange Rules regarding routing to away trading centers, NES as defined above, has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by NES to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements of Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel any orders that have been routed.
- (F) The Exchange and NES may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority.
- (G) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (E) above, the routing broker(s) cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.
- (iii) The following order types are available:
- (A) ***DNR Order***. A DNR Order will never be routed outside of Phlx regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the Phlx Order Book and be displayed at a price one minimum price variation ("MPV") inferior to that away best bid/offer. If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading. Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR's displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price; or (2) the ABBO is improved to a price which locks the DNR Order's displayed price, in which case the incoming order will execute at the DNR Order's displayed price. Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit, and expose such orders at the new ABBO only if the re-priced order locks or crosses the new ABBO. Once booked at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.
- (B) ***FIND Order***. A FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. FIND Orders submitted after an Opening Process initiate their own

Route Timers and are routed in the order in which their Route Timers end. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day.

- (1) With respect to an Opening Process, only a Public Customer and Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process. At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Rule 1017(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will be executed pursuant to Rule 1017(k). Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process.
- (2) With respect to an Opening Process, if during a route timer at the conclusion of an Opening Process pursuant to Rule 1017(k) markets move such that the FIND Order is executable against Exchange interest, the FIND Order will immediately execute. If during a route timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the PBBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the route timer. If the ABBO worsens but remains better than the PBBO, the FIND Order will reprice and be reexposed at the new price(s) without interrupting the route timer.
- (3) A FIND Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day.
- (4) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is inferior to the internal PBBO will be traded at the Exchange at or better than the PBBO price. If the FIND Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, (2) be entered into the Order Book at its limit price, or (3) if locking or crossing the ABBO, be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The FIND Order will be treated as DNR for the remainder of the trading day.
- (5) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO. If the FIND Order has size remaining after exhausting the PBBO, it will initiate a Route Timer, and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the

Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the FIND Order, any new interest arrives opposite the FIND Order that is marketable against the FIND Order will trade at the FIND Order price. If during the Route Timer, the ABBO markets move such that the FIND Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the FIND Order that is marketable against the FIND Order such interest will trade against the FIND Order at the ABBO price unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

- (6) If, at the end of the Route Timer pursuant to subparagraph (5) above, the FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after routing, it will (i) trade at the next PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.
- (7) A FIND Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the internal PBBO will initiate a Route Timer, and expose the FIND Order at the ABBO to allow participants and other market participants an opportunity to interact with the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price that is the better of one MPV away from the ABBO or the PBBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price.
- (8) If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the FIND Order, the order will route to the

away market(s) whose disseminated price(s) is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.

- (9) A FIND Order that is routed to an away market(s) will be marked as an Intermarket Sweep Order "ISO" and designed as an IOC order.

(C) **SRCH Order.** A SRCH Order is a Public Customer order that is routable at any time. A SRCH Order on the Order Book during an Opening Process (including a re-opening following a trading halt), whether it is received prior to an Opening Process or it is a GTC SRCH Order from a prior day, may be routed as part of an Opening Process. Orders initiate their own Route Timers and are routed in the order in which their Route Timers end.

- (1) At the end of an Opening Process, any SRCH Order that is priced through the Opening Price will be cancelled, and any SRCH Order that is at or inferior to the Opening Price will be executed pursuant to Rule 1017(k). If during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO, the SRCH Order will book at its limit price. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer.
- (2) A SRCH Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.
- (3) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded at the Exchange at or better than the PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the price equal to the ABBO price, and/or (2) be routed, subject to a Route Timer, to away markets if all Phlx interest at better or equal prices has been exhausted, and/or (3) be entered into the Order Book at its limit price if not locking or crossing the PBBO, including All-

or-None Orders which can be satisfied, or the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

- (4) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it will initiate a Route Timer and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. During the timer, the SRCH Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the SRCH Order, any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order will trade at the SRCH Order price.
- (5) If, at the end of the Route Timer pursuant to subparagraph (4) above, the SRCH Order is still marketable with the ABBO, the SRCH Order will route up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If the SRCH Order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the book at its limit price if not locking or crossing the PBBO, including All-or-None Orders which can be satisfied, or the ABBO. The System will route and execute contracts contemporaneously at the end of the Route Timer. Once on the book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.
- (6) A SRCH Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer, and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. During the Route Timer, the SRCH Order will be included in the PBBO at a price that is the better of one MPV inferior to the ABBO or at the PBBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior

to the ABBO. If there exists a locked ABBO when the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order such interest will trade against the SRCH order at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

- (7) If, at the end of the Route Timer pursuant to subparagraph (6) above, the ABBO is still the best price and is marketable with the SRCH Order, the order will route to the away market(s) whose disseminated price is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the Order Book at its limit price if not locking or crossing the PBBO including All-or-None Orders which can be satisfied or the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.
- (8) A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If, during such Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at its SRCH Order price.
- (9) If, at the end of the Route Timer pursuant to subparagraph (8) above, the ABBO is still the best price, the SRCH Order will route to the away market(s) up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (i) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO, including All-or-None Orders which can be satisfied, or the ABBO.
- (10) A SRCH Order that is routed to an away market(s) will be marked as an ISO and designated as an IOC order.

#### **Rule 1094. Sponsored Participants**

(a) The Exchange shall be available for entry and execution of orders by Sponsored Participants with authorized access. Sponsored Access shall mean an arrangement whereby a member organization permits its customers to enter orders into the Exchange's trading system that bypass

the member organization's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

(b) A Sponsored Participant may obtain authorized access to the Exchange only if such access is authorized in advance by one or more Sponsoring Member Organizations as follows:

- (i) Sponsored Participants must enter into and maintain participant agreements with one or more Sponsoring Member Organizations establishing a proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange ("Customer Agreement"). Such Customer Agreement(s) must incorporate sponsorship provisions set forth in sub-paragraph (ii) below.
- (ii) For a Sponsored Participant to obtain and maintain authorized access to the Exchange, a Sponsored Participant and its Sponsoring Member Organization must agree in writing to the following sponsorship provisions:
  - (A) The authorized access must comply with Rule 15c3-5 under the Securities Exchange Act of 1934.
  - (B) The Sponsoring Member Organization acknowledges and agrees that:
    - (1) All orders entered by the Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member Organization;
    - (2) Sponsoring Member Organization is responsible for any and all actions taken by such Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant.
  - (C) Sponsoring Member Organization shall comply with the Exchange's Limited Liability Company Agreement, By-Laws, Rules and procedures with regard to the Exchange and Sponsored Participant shall comply with the Exchange's Limited Liability Company Agreement, By-Laws, Rules and procedures with regard to the Exchange, as if Sponsored Participant were an Exchange member organization.
  - (D) Sponsored Participant shall maintain, keep current and provide to the Sponsoring Member Organization a list of individuals authorized to obtain access to the Exchange on behalf of the Sponsored Participant.
  - (E) Sponsored Participant shall familiarize its authorized individuals with all of the Sponsored Participant's obligations under this Rule and will assure that they receive appropriate training prior to any use or access to the Exchange.
  - (F) Sponsored Participant may not permit anyone other than authorized individuals to use or obtain access to the Exchange.

- (G) Sponsored Participant shall take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the Exchange, or the information and data made available therein. Sponsored Participant understands and agrees that Sponsored Participant is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of authorized individuals, and for the trading and other consequences thereof.
- (H) Sponsored Participant acknowledges its responsibility to establish adequate procedures and controls that permit it to effectively monitor its employees', agents' and Participants' use and access to the Exchange for compliance with the terms of this agreement.
- (I) Sponsored Participant shall pay when due all amounts, if any, payable to Sponsoring Member Organization, Exchange, or any other third parties that arise from the Sponsored Participant's access to and use of the Exchange. Such amounts include, but are not limited to applicable exchange and regulatory fees.

#### **Rule 1095. Reserved**

#### **Rule 1096. Entry and Display of Orders**

(a) Members can enter orders into the System, subject to the following requirements and conditions:

- (1) Members shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels.
- (2) The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site.
- (3) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.
- (4) Orders submitted to the System are subject to the following: minimum increments provided for in Rule 1034, risk protections provided for in Rule 1099, and the restrictions of any order type as provided for in Rule 1080(b). Orders may execute at multiple prices.
- (5) Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.



(b) **NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule 1083(h)), will not be automatically executed by the System at prices inferior to the NBBO (as defined in Rule 1083(j)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Rule 1083(k)).

(c) The System automatically executes eligible orders using the Exchange's displayed best bid and offer ("PBBO") or the Exchange's non-displayed order book ("internal PBBO") if there are non-displayed orders on the order book or the best bid and/or offer on the Exchange has been repriced pursuant to subsection (d) below.

(d) **Trade-Through Compliance and Locked or Crossed Markets.** An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(e) Orders will be displayed in the System as described in Rule 1070.

**Rule 1097. Limitations on Order Entry.**

(a) **Limit Orders.** Members shall not enter public customer limit orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

(b) **Limitations on Principal Transactions.** Members may not execute as principal against orders on the limit order book they represent as agent unless: (i) agency orders are first exposed on the limit order book for at least 1 second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or "PIXL" pursuant to Rule 1087; (iv) the orders are entered into the Complex Order Live Auction or "COLA" pursuant to Rule 1098(e); or (v) the orders are entered into the Qualified Contingent Cross or "QCC" mechanism pursuant to Rules 1088 or Options 8, Section 30(e).

(1) This Rule prevents a member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Member was already bidding or offering on the book. However, the

Exchange recognizes that it may be possible for an member to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Rule for a member to be a party to any arrangement designed to circumvent this Rule by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member immediately upon their entry into the System.

(c) **Limitations on Solicitation Orders.** Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-Member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or "PIXL" pursuant to Rule 1087; (iv) the orders are entered into the Complex Order Live Auction or "COLA" pursuant to Rule 1098(e); or (v) the orders are entered into the Qualified Contingent Cross or "QCC" mechanism pursuant to Rules 1088 or Options 8, Section 30(e).

(d) Prior to or after submitting an order to Phlx, a member cannot inform another member or any other third party of any of the terms of the order for purposes of violating Rule 1095.

### **Rule 1098. Complex Orders on the System**

#### (a) Definitions

(i) **Complex Order.** For purposes of the electronic trading of Complex Orders, a Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. With respect to Mini Options, a Complex Order is an order involving the simultaneous purchase and/or sale of two or more different Mini Options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. Mini Options may only be part of a Complex Order that includes other Mini Options.

Except respecting Mini Options, a Complex Order can also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery. Stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components. Member organizations may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such Complex Orders with a

stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade Complex Orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade Complex Orders containing a stock/ETF component.

The maximum number of components of a Complex Order is six. A stock-option order may include up to five options components (legs).

- (ii) Complex Order Strategy. The term "Complex Order Strategy" means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System.
- (iii) PBBO. The term "PBBO" means the Phlx Best Bid and/or Offer for individual option series.
- (iv) cPBBO. The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.
- (v) NBBO. The term "NBBO" means the National Best Bid and/or Offer for an individual option series.
- (vi) cNBBO. The term "cNBBO" means the best net debit or credit price for a Complex Order Strategy based on the NBBO for the individual options components of a Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.
- (vii) Participant, Phlx market maker and Phlx electronic market maker. The term "participant" means SQTs, RSQTs, Floor Market Makers, specialists and non-Phlx market makers on another exchange; Public Customers, Professionals, Firms and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Based Management System. The term "Phlx market maker" means SQTs, RSQTs, specialists and Floor Market Maker. The term "Phlx electronic market maker" means SQTs, RSQTs and specialists.
- (viii) Do Not Auction. The term "Do Not Auction" means that this Complex Order is not "COLA-eligible," as defined in (d)(ii)(B) below and thus prevents it from triggering a Complex Order Live Auction, pursuant to paragraph (e) below, or joining one that is in progress.

- (A) DNA Orders received prior to the opening or when the Complex Order Strategy is not available for trading will be cancelled.
  - (B) DNA Orders are cancelled if not immediately executed.
  - (C) DNA Orders will initially only be available for Complex Orders consisting of more than two options components or where the underlying security is a component; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, DNA Orders will also become available for Complex Orders consisting of two options components.
- (ix) Conforming ratio. The term "conforming ratio" is where the ratio between the sizes of the options components of a Complex Order is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.00) ratio is a conforming ratio, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not; where one component of the Complex Order is the underlying security, the ratio between any options component and the underlying security component must be less than or equal to eight contracts to 100 shares of the underlying security.
- (x) Firm. The term "Firm" means a broker-dealer trading for its own (proprietary) account that is: a member of The Options Clearing Corporation ("OCC") or maintains a Joint Back Office ("JBO") arrangement with an OCC member. Unless otherwise specified, Firms are included in the category of non-market-maker off-floor broker-dealer.
- (b) Complex orders may be entered in increments of \$0.01 with certain "time in force" designations and as certain order types with certain contingencies as follows:
- (i) Public Customers and Professionals and non-marketmaker off-floor broker-dealers may enter the Complex Orders listed in paragraph (a) above as Day, Good Til Cancelled ("GTC") or Immediate or Cancel ("IOC") as those terms are defined in Rule 1080(c).
  - (ii) SQTs, RSQTs, Floor Market Makers, specialists and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as IOC only. In addition, for Complex Orders consisting of more than two options components or where the underlying security is a component, SQTs, RSQTs, non-SQT ROTs, specialists and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as Day orders; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, Day orders will also become available for Complex Orders consisting of two options components.
  - (iii) Floor Brokers using the Options Floor Based Management System may enter the Complex Orders listed in paragraph (a) above as Day, GTC or IOC on behalf of Public Customers, Professionals and non-market-maker off-floor broker-dealers, and as IOC

only on behalf of SQTs, RSQTs, Floor Market Makers, Specialists, non- Phlx market makers on another exchange and Firms.

(iv) Member organizations must mark the stock/ETF component of a Complex Order "long," "short," or "short exempt" in compliance with Regulation SHO under the Exchange Act.

(v) Complex Orders may be submitted as: All-or-None Orders, Cancel-Replacement Orders, Directed Orders, Limit Orders or Market Orders as those terms are defined in Rule 1080(b).

(c)(i) A Complex Order is eligible to trade on the System only when each options component of the Complex Order is open for trading on the Exchange, and where the underlying security is a component of the Complex Order, such underlying security is open for trading on its primary market. Complex Orders may be executed against the Complex Order Book (as defined below) or placed on the Complex Order Book. Certain Complex Orders will be entered into a Complex Order Live Auction (as defined below) either following a Complex Order Opening Process (as defined below) or when a Complex Order improves the cPBBO.

(ii) Complex Orders will not trade on the System under the following conditions:

(A) the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order;

(B) during an opening rotation for any options component of the Complex Order;

(C) during a trading halt for any options component of the Complex Order;

(D) Reserved.

(E) when an automatic removal of quotes occurs in any options component of the Complex Order that represents all or a portion of the PBBO; or

(F) when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Rule 1082(a)(ii)(B).

Once the condition(s) set forth in sub-paragraphs (A) - (F) above have terminated, the System will begin a Complex Order Opening Process.

(iii) Spread Priority. (A) Complex Orders consisting of a conforming ratio may be executed at a total credit or debit price without giving priority to individual bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that if any of the bids or offers established in the marketplace consist of a Public Customer order, at least one option leg is executed at a better price than the established bid or offer for that option contract by the minimum

trading increment and no option leg is executed at a price outside of the established bid or offer for that option contract.

(B) Where a Complex Order in a conforming ratio consists of the underlying security (stock or ETF) and one options leg, such options leg has priority over bids or offers established in the marketplace, except over bids or offers established by Public Customer orders. However, where a Complex Order in a conforming ratio consists of the underlying stock or ETF and more than one options leg, the options legs have priority over bids and offers established in the marketplace, including Public Customer orders, if at least one options leg improves the existing market for that option.

(C) Rule 1084 shall apply to all Complex Order executions. Accordingly, Complex Orders with conforming ratios are eligible for the exception contained in Rule 1084(b)(viii) and therefore may trade through the NBBO for that option.

(D) This paragraph (c) shall apply to all Complex Order executions, whether executed in a Complex Order Live Auction or otherwise.

(d) Complex Order Opening Process ("COOP").

(i) The System will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the CBOOK (as defined below). There will be one such COOP per Complex Order Strategy.

(ii) Once trading in each option component of a Complex Order Strategy has opened or reopened following a trading halt for a certain configurable time not to exceed 60 seconds (and none of the conditions described in paragraph (c)(ii) above exist), the System will initiate the COOP for that Complex Order Strategy, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening of that Complex Order Strategy, unless that Complex Order Strategy is already open as a result of another electronic auction process or another electronic auction involving the same Complex Order Strategy is in progress. Following a trading halt, a COOP will be conducted for any Complex Order Strategy that has a Complex Order present or had previously opened prior to the trading halt. The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (as defined below).

(A) COOP Timer.

(1) The Exchange will send a broadcast message indicating that a COOP has been initiated for that Complex Order Strategy. The broadcast message will identify the Complex Order Strategy, the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at

which any orders can be executed), and the imbalance side and volume, if any ("Complex Order Opening Auction Notification").

The Complex Order Opening Auction Notification starts a COOP Timer ("COOP Timer"), which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B) below.

(2) Reserved.

(3) Complex Orders in such a Complex Order Strategy that are received during the COOP Timer and COOP Evaluation (as described below) will reside on the CBOOK (as defined below).

(4) Complex Orders received prior to the COOP Timer and Complex Orders received during the COOP Timer (other than COOP Sweeps and Complex Order Responses marked as a response) will be visible to participants upon receipt.

(5) Complex Orders in a Complex Order Strategy marked as IOC received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. DNA Orders received during a COOP will be cancelled and will not participate in the COOP. Complex Orders marked as IOC and DNA Orders received before the initiation of the COOP in that Complex Order Strategy will be cancelled and will not participate in the COOP; however, a COOP will occur in that Complex Order Strategy.

(B) Responses. In response to a Complex Order Opening Auction Notification, participants may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders in increments of \$0.01 ("Complex Order Response").

Phlx electronic market makers may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more bids and/or offers known as COOP Sweeps. A COOP Sweep is a one-sided electronic order (IOC) entered by a Specialist or ROT through SQF at a particular price submitted for execution against opening trading interest in a particular Complex Order Strategy.

(1) A Phlx electronic market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in subparagraph (2) below) in increments of \$0.01 in response to a Complex Order

Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.

- (2) Phlx electronic market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx electronic market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx electronic market maker's COOP Sweep from that COOP at that price level.
  - (3) COOP Sweeps and Complex Order Responses marked as a response will not be visible to any participant and will not be disseminated by the Exchange. Any COOP Sweeps which remain unexecuted at the end of the COOP Timer once all executions are complete will expire. A Complex Order Response will expire if unexecuted at the end of the COOP Timer once all executions are complete, but a Complex Order submitted during the COOP Timer which is not marked as a response will be available to be traded after the opening of a Complex Order Strategy unless it is marked IOC. Such Complex Order will be placed on the CBOOK if not executed during the opening.
- (C) COOP Evaluation. Upon expiration of the COOP Timer, the System will conduct a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none (which will be executed if possible) unless the maximum number of contracts can only trade without including all-or-none orders. The Exchange will open the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to Public Customers in time priority; next to Phlx electronic market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.
- (1) No trade possible. If at the end of the COOP Timer the System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in paragraph (f) below.
  - (2) Trade is possible. If at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the System, the System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the



larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the net price without trading through residual interest or the cPBBO or without trading at the cPBBO where there is Public Customer interest at the best bid or offer for any leg, consistent with Rule 1098(c)(iii).

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below).

(3) The Complex Order Strategy will be open after the COOP even if no executions occur.

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) For purposes of paragraph (e):

(A) COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order during normal trading if the System receives a Complex Order that improves the cPBBO.

(B) (1) A "COLA-eligible order" means a Complex Order that is not for a market maker, as specified in Rule 1098(b)(ii) or for a Firm, as defined in Rule 1098(a)(x). If the System identifies the existence of a COLA-eligible order, such COLA-eligible order will initiate a COLA, during which participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) Notwithstanding the foregoing, a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL auction in progress or by the System during the final seconds of any trading session shall not be COLA-eligible. The Exchange shall establish the number of seconds, not to exceed 10 seconds, in an Options Trader Alert.

- (ii) Initiation of a COLA. Upon the identification of the COLA-eligible order by the System, the Exchange will send a broadcast message to participants indicating that a COLA has been initiated. The broadcast message will identify the Complex Order Strategy, and the size, side and price of the COLA-eligible order.
- (iii) COLA Timer. The COLA will begin with a timing mechanism (a "COLA Timer"), which is a counting period not to exceed five (5) seconds during which participants may submit bids or offers that improve the cPBBO. The COLA Timer will be set for the same number of seconds for all options trading on the Exchange as determined by the Exchange and communicated to membership on the Exchange's website. Complex Orders may be cancelled at any time prior to the commencement of a COLA.
- (iv) Bidding and Offering in Response to a COLA. Participants may bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more Complex Orders in increments of \$0.01. Electronic market makers may also bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more bids or offers, known as a "COLA Sweep." A COLA Sweep is a one-sided electronic order (IOC) entered by a Specialist or ROT through SQF submitted for execution against other trading interest in a particular Complex Order Strategy. Any COLA Sweeps which remain unexecuted at the end of the COLA Timer once all executions are complete will expire.
  - (A) COLA Sweep Price. A single participant may submit multiple COLA Sweeps at different prices (but not multiple COLA Sweeps at the same price, except as provided in sub-paragraph (B) below) in increments of \$0.01 in response to a COLA broadcast, regardless of the minimum trading increment applicable to the specific series.
  - (B) Participants may change the size of a previously submitted COLA Sweep at the previously submitted COLA price during the COLA Timer. The System will use the participant's most recently submitted COLA Sweep at each price level as that participant's response at that price level, unless the COLA Sweep has a size of zero. A COLA Sweep with a size of zero will remove a participant's COLA Sweep from the COLA at that price level.
  - (C) COLA Sweeps and Complex Orders marked as a response will not be visible to any participant and will not be disseminated by the Exchange. A Complex Order marked as a response will expire if unexecuted at the end of the COLA Timer once all executions are complete, but a Complex Order submitted during the COLA Timer which is not marked as a response will be available to be traded unless it is marked IOC. Such Complex Order will be placed on the CBOOK if not executed in the COLA.
  - (D) The provisions of Rule 1080(c)(ii)(C) shall apply to Complex Orders and COLA Sweeps submitted under this rule.

- (v) Execution of COLA-Eligible Orders. Upon the expiration of the COLA Timer, COLA Sweeps and/or any Complex Orders received during the COLA Timer that improve the cPBBO may be executed against the COLA-eligible order. The COLA-eligible order will receive the best price or prices available for the Complex Order Strategy represented by the COLA-eligible order. The components of a COLA-eligible order may be executed in one cent increments, regardless of the minimum quoting increments otherwise appropriate to the individual legs of the order. Executions in the COLA will comply with the requirements of Exchange Rule 1033(d).
- (vi) Allocation and Priority. As stated above, COLA-eligible orders, COLA Sweeps, and responsive Complex Orders will trade first based on the best price or prices available at the end of the COLA Timer.
- (A) (1) "Legging." If no COLA Sweeps or responsive Complex Orders for the same Complex Order Strategy as the COLA-eligible order were received during the COLA Timer and there is no component that consists of the underlying security, each options component of the COLA-eligible order may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order, provided that each component is executed such that the components comprise the Complex Order Strategy with the correct ratio for the desired net debit or credit and provided that the Complex Order is not marked all-or-none; all-or-none orders that are not executed during the COLA are placed on the CBOOK. Trades pursuant to this paragraph will be allocated in accordance with Exchange Rule 1014(g)(vii).
- (2) If the markets for the individual components of a Complex Order Strategy independently improve during the COLA Timer and match the best price of COLA Sweep(s) and/or responsive Complex Order(s), the System will execute such COLA Sweep(s) and/or responsive Complex Orders before executing the individual components of the Complex Order Strategy.
- (3) A Public Customer Complex Order will have priority over specialists, SQTs and RSQTs and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.
- (B) If multiple Complex Orders and COLA Sweeps are eligible for execution against the COLA-eligible order at the same price, the trade will be allocated among participants submitting electronic Complex Orders and COLA Sweeps as set forth below. Executions in the COLA will comply with the requirements of Exchange Rule 1098(c)(iii) above.
- (1) First, to Public Customer marketable Complex Orders on the CBOOK (as defined below) in the order in which they were received;

- (2) Second, to COLA Sweeps and SQTs, RSQTs, and Floor Market Makers who have submitted Complex Orders that are marketable against the COLA-eligible order, on a size pro-rata basis; and
  - (3) Third, to non-market maker off-floor broker-dealers on a size pro-rata basis.
- (C) Notwithstanding the foregoing, if the specialist submits a COLA Sweep during the COLA Timer and such COLA Sweep is for the same price as other COLA Sweeps that are eligible for execution against the COLA-eligible order, after Public Customer marketable Complex Orders have been executed against the COLA-eligible order, the specialist shall be entitled to receive the greater of:
- (1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and Floor Market Maker Complex Orders on the CBOOK; or
  - (2) the Enhanced Specialist Participation as described in Options 8, Section 25.
  - (3) The Specialist is not entitled to receive an allocation that would exceed the size of the specialist's COLA Sweep.
- (D) If a COLA-eligible order cannot be filled in its entirety, any remaining balance will be placed on the CBOOK, subject to other instructions (i.e., cancel balance).
- (vii) Firm Quote Requirement for COLA-Eligible Orders. COLA Sweeps in response to a COLA broadcast represent non-firm interest that can be modified at any time prior to the end of the COLA Timer. At the end of the COLA Timer, COLA Sweeps shall be firm only with respect to the COLA-eligible order for which it is submitted, provided that COLA Sweeps that exceed the size of a COLA-eligible order are also eligible to trade with other incoming COLA-eligible orders, COLA Sweeps and any other interest received during the COLA Timer after the initial COLA-eligible order has been executed to the fullest extent possible. Remaining interest trades as described in subparagraph (viii)(C)(3). Any COLA Sweeps not accepted in whole or in a permissible ratio will expire at the end of the COLA Timer once all executions are complete.
- (viii) Complex Orders resting on the CBOOK, and incoming electronic Complex Orders and COLA Sweeps that are received prior to the expiration of the COLA Timer, (collectively, for purposes of this rule, "incoming Complex Orders") representing the same Complex Order Strategy as a COLA-eligible order will impact the original COLA as follows:
- (A) At the end of the COLA Timer, the System will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA in the priority determined in Rule 1098(e)(vi) above and based on the price determined as set forth below.

- (B) Incoming Complex Orders on the same side of the market as the COLA-eligible order. Incoming Complex Orders that were received during the COLA Timer for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. The original COLA-eligible order has priority at all price points (i.e., multiple COLA Sweep Prices) over the incoming Complex Order(s), regardless of the price of the incoming Complex Order. The incoming Complex Order shall not be eligible for execution against interest on the opposite side of the market from the COLA-eligible order until the COLA-eligible order is executed to the fullest extent possible. If the incoming Complex Order is not executed in its entirety, the System will not initiate a new COLA. Any remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.
- (C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.
- (1) Incoming Public Customer, Professional and non-market-maker off-floor broker-dealer (other than Firms) Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA-eligible order (which will be executed to the fullest extent possible first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:
- (a) If such incoming Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep, the incoming Complex Order will be executed at such price.
  - (b) If such incoming Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep, the incoming Complex Order will be executed at the mid-point of the best priced Complex Order or COLA Sweep and the limit order price, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
  - (c) If such incoming Complex Order is a market order or a limit order that crosses the cPBBO, the incoming Complex Order will be executed at the mid-point of the cPBBO on the same side of the market as the COLA-eligible order and the best priced Complex Order or COLA Sweep, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
  - (d) If multiple Complex Orders are received on the opposite side of the market from the COLA-eligible order, Public Customer orders at the same price will be executed in the order in which they were received, whereas non-market-maker off-floor broker-dealer orders will be executed on a pro-rata basis at each price level.

- (e) If the COLA-eligible order is executed to the fullest extent possible and there are remaining bids or offers from the incoming Complex Order(s), the System will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (2) Incoming non-customer (Phlx market makers, Firms and non-Phlx market makers) Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA eligible order (which will be executed to the fullest extent possible first as described in subparagraph (B) above) or other Complex Orders or COLA Sweeps as follows:
- (a) If such incoming non-customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at such price, subject to the provisions set forth sub-paragraph (e) above.
  - (b) If such incoming non-customer Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at the limit order price.
  - (c) If such incoming non-customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming non-customer Complex Order will be executed at a price of \$0.01 better than the cPBBO on the same side of the market as the COLA-eligible order.
  - (d) If multiple non-customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, Phlx market maker orders will be executed on a pro-rata basis and Firm and non-Phlx market maker orders will be executed on a pro-rata basis, at each price level.
  - (e) If the COLA-eligible order is executed to the fullest extent possible and there are remaining bids or offers from the incoming non-customer Complex Order(s), the System will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep or Complex Order will be executed against the COLA-eligible order after all interest at the better price(s) has/have been executed. After the initial COLA-eligible order has been executed to the fullest extent possible, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order has been executed, there exist Complex Orders and/or COLA Sweeps

on the opposite side of the market from the COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, and if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed without trading through residual Complex interest or the cPBBO, or without trading at the cPBBO where there is Public Customer interest.

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK.

The System will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(ix) Exchange members and participants quoting and trading in open outcry shall not be eligible to participate in the electronic Complex Order System. In order to participate, such members and participants must submit COLA Sweeps and/or responsive Complex Orders electronically.

(f) Complex Limit Order Book ("CBOOK")

(i) Complex Orders must be entered onto the CBOOK in increments of \$0.01. The individual components of a Complex Order may be executed in minimum increments of \$0.01, regardless of the minimum increments applicable to such components. Such orders will be placed on the CBOOK by the System when the following conditions exist:

(A) When the Complex Order does not price-improve upon the cPBBO upon receipt;

(B) When the order is received before the expiration of the Complex Order Opening Process;

- (C) When the Complex Order is received during a trading halt on the Exchange for any component of the Complex Order;
  - (D) When the Complex Order is received while the Exchange's automated execution System is disengaged for any options component of such Complex Order;
  - (E) When any options component of the Complex Order is a pre-opening order; or
  - (F) When the Complex Order is received during the final configurable number of seconds of the trading session after any marketable portion of the Complex Order is executed.
- (ii) Phlx electronic market makers may submit one or more bids and/or offers known as Sweeps. A Sweep is a one-sided electronic order (IOC) entered by a Specialist or ROT through SQF at a particular price submitted for execution against existing interest in a particular Complex Order Strategy, including against interest on the CBOOK ("CBOOK Sweep"). Any CBOOK Sweeps which do not execute immediately will expire.
  - (iii) Execution of Complex Orders in the CBOOK. Complex orders in the CBOOK will be executed without consideration of any prices that might be available on other exchanges trading the same contracts.
- (A) A Complex Order resting on the CBOOK will execute automatically against: (1) quotes, orders on the limit order book for the individual options components of the order, or sweeps, except if any of the components is the underlying security or if the Complex Order is marked all-or-none, and provided that the Complex Order can be executed in full or in a permissible ratio by such quotes or orders (allocated in accordance with Exchange Rule 1014(g)(vii)); or (2) an incoming marketable Complex Order(s) that do(es) not trigger a COLA Timer, whichever arrives first.
  - (B) An incoming marketable Complex Order that does not trigger a COLA Timer will execute in the following order:
    - (1) First, against quotes or orders on the limit order book for the individual components of the order (provided that the Complex Order can be executed in full or in a permissible ratio by such quotes or orders), except if any of the components is the underlying security. Trades pursuant to this subparagraph (B)(1) will be allocated in accordance with Exchange Rule 1014(g)(vii); and
    - (2) Second, against Public Customer Complex Orders and nonmarket maker broker-dealer Complex Orders resting in the CBOOK in price priority and, at the same price, against (i) non-broker-dealer customer Complex Orders in the order in which they were received; (ii) SQTs, RSQTs, Floor Market Makers, Specialists and non-Phlx market makers on another exchange on a size pro rata basis; and (iii) non-market-maker, broker-dealer and Professional Complex Orders on a size pro rata



basis, provided that any execution pursuant to this paragraph (f)(iii)(B)(2) complies with the requirements of subparagraph (c)(iii) above.

- (3) A Public Customer Complex Order will have priority over Specialists, SQTs and RSQTs, Professionals and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.

(C) Legging Orders. Legging Orders may be automatically generated on behalf of Complex Orders resting on the top of the CBOOK at a price that improves the cPBBO so that they are represented at the best bid and/or offer on the Exchange for the individual legs. The System will evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ("NBBO") or Phlx best bid and/or offer ("PBBO") in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty.

A Legging Order is a limit order on the regular order book in an individual series that represents one leg of a two-legged Complex Order (which improves the cPBBO) that is to buy or sell an equal quantity of two options series resting on the CBOOK. Legging Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and are limit orders with a time-in-force of DAY, as they represent an individual component of a Complex Order.

- (1) A Legging Order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than Legging Orders). Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading.
- (2) A Legging Order will not be created: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is an auction on either side or a Posting Period under Rule 1099 regarding Acceptable Trade Range on the same side in progress in the series, (iii) the price of the Complex Order is outside of the ACE Parameter of Rule 1098(i), (iv) if there is already a Legging Order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules), (v) the Complex Order is an All-or-None Order, or (vi) for a Complex Order if the generated Legging Order would immediately cause resting Legging Orders to be removed pursuant to section

(f)(iii)(C)(4)(ix) below. Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series. Two Legging Orders relating to the same Complex Order can be generated, but only one of those can execute as part of the execution of a particular Complex Order.

- (3) A Legging Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other leg of the Complex Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order based on that Complex Order will be removed.
- (4) A Legging Order is automatically removed from the regular order book : (i) if the price of the Legging Order is no longer at the Exchange's displayed best bid or offer on the regular limit order book, (ii) if execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange's best displayed bid or offer on the regular limit order book (other than another Legging Order), (iii) if the Complex Order is executed in full or in part, (iv) if the Complex Order is cancelled or modified, (v) if the price of the Complex Order is outside the ACE Parameter of Rule 1098(i), (vi) upon receipt of a Qualified Contingent Cross Order which includes a component in which there is a Legging Order, an order that will trigger an auction under Exchange rules in a component in which there is a Legging Order (whether a buy order or a sell order), or pursuant to Rule 1087(f) a PIXL Order for the account of a public customer paired with an order for the account of a public customer, (vii) if a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher priority, (viii) if a Complex Order is marketable against the cPBBO where a Legging Order is present and has more than one leg in common with the existing Complex Order that generated the Legging Order, (ix) if a Complex Order becomes marketable against multiple Legging Orders, (x) if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the components in the cPBBO, (xi) if an incoming all-or-none order is entered onto the order book at a price which is equal to or crosses the price of a Legging Order, or (xii) when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).

(g) Strategy Price Protection ("SPP"). SPP is a feature of the System that prevents certain Complex Order Strategies from trading at prices outside of pre-set standard limits. SPP will apply only to Vertical Spreads (defined below) and Time Spreads (defined below).

- (i) Vertical Spread. A Vertical Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices.
- (A) The SPP will calculate the maximum possible value of a Vertical Spread by subtracting the value of the lower strike price from the value of the higher strike price as between the two components. For example, a Vertical Spread consisting of the purchase of one January 30 call and the sale of one January 35 call would have a maximum value of \$5.00. The minimum possible value of a Vertical Spread is always zero.
- (B) The SPP will ensure that a Vertical Spread will not trade at a net price of less than the minimum possible value (minus a pre-set value setting an acceptable range) or greater than the maximum possible value (plus a pre-set value setting an acceptable range).
- (C) The pre-set value and acceptable range will be uniform for all options traded on the Exchange as determined by the Exchange and communicated to membership on the Exchange's website.
- (ii) Time Spread. A Time Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price.
- (A) The maximum possible value of a Time Spread is unlimited. The minimum possible value of a Time Spread is zero.
- (B) The SPP will ensure that a Time Spread will not trade at a price of less than zero (minus a pre-set value setting an acceptable range).
- (iii) Protection. If the limits (on either side of the market) set forth in sub-paragraphs (i)(B) and (ii)(B) above would be violated by an execution, the System will cancel the order.
- (h) Where one component of a Complex Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Order to Nasdaq Execution Services, LLC ("NES"), its designated brokerdealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market, which the Exchange will establish in an Options Trader Alert. If the stock price is not within these parameters, the Complex Order is not executable.

When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if

such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Order to the entering member organization. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

(i) Acceptable Complex Execution ("ACE") Parameter. The ACE Parameter defines a price range outside of which a Complex Order will not be executed. The ACE Parameter is either a percentage or number defined by the Exchange and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. The Exchange will issue an Options Trader Alert ("OTA") to membership indicating the issue-by-issue ACE Parameters. The Exchange will also maintain a list of ACE Parameters on its website.

(i) Butterfly Spread Protection. The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(i) A Butterfly Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Butterfly Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Butterfly Spread Protection applies throughout the trading day, including pre-market, during the Opening Process and during Halts.

(j) **Box Spread Protection.** The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(i) A Box Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Box Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Box Spread Protection applies throughout the trading day, including premarket, during the Opening Process and during Halts.

### **Rule 1099. Risk Protections**

The following order protections apply to simple orders.

(a) The following are order protections on Phlx:

(1) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents certain day limit, good til cancelled, immediate or cancel, and all-or-none orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders, stop limit orders, Intermarket Sweep Orders or complex orders.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

- (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.
- (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

(C) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.

- (2) **Market Order Spread Protection.** Market Orders will be rejected if the best of the NBBO and the internal market PBBO (the "Reference PBBO") is wider than a preset threshold at the time the Market Order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) The following are order and quote protections on Phlx:

(1) **Acceptable Trade Range.**

- (A) After the opening, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-None Order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote.
- (B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Rule 1082(a)(ii)(B)(3) will ensue, triggering a new Reference Price. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned). This process will repeat until either (i) the order/quote is executed, cancelled, or posted at its limit price or (ii) the order has been subject to a

configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(C) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(c) The following protections apply to Specialists and Registered Options Traders on Phlx:

(1) **Anti-Internalization** - Quotes and orders entered by Specialists and Registered Options Traders (as defined in Rule 1014) using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Specialist or Registered Options Trader using the same identifier. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to complex order transactions.

(2) **Automated Quotation Adjustments.**

(A) A specialist, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange's Phlx XL system ("System") will automatically remove a Market Maker's quotes in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the disseminated size, the original size quoted by the Market Maker, of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a Market Maker, not less than 1% ("Specified Percentage"), the System will automatically remove a Market Maker's quotes in all series of the underlying security submitted through designated Phlx protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage- Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that

there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

- (B) A specialist, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a volume threshold by which the Exchange's Phlx XL system ("System") will automatically remove a Market Maker's quotes in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Volume-Based Specified Time Period") when the Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the Percentage-Based Threshold. A Volume- Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Volume-Based Specified Time Period expires. A Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume- Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.
- (C) A Market Maker or Market Maker Group (multiple affiliated Market Makers is a "Group" as defined by a Phlx member and provided by such member to the Exchange) may provide a Specified Time Period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period(s) established by the Market Maker not to exceed 15 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage-Based Threshold, described in (i) above, as well as the Volume-Based Threshold described in (ii) above. Once the System determines that the number of triggers equals or exceeds a number established by either the Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove in all options series in an underlying issue. A Multi- Trigger Specified Time Period will commence after every trigger of either the Percentage-Based Threshold or the Volume-Based Threshold and will continue until the System removes quotes as described in (iv) or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.



- (D) The System will automatically remove quotes in all options in an underlying security when the Percentage-Based Threshold or Volume-Based Threshold has been reached. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been reached. The System will send a Purge Notification Message to the Market Maker for all affected options when the above thresholds have been reached.
- (i) The Percentage-Based Threshold or Volume-Based Threshold and Multi-Trigger Threshold, are considered independently of each other.
- (ii) Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold.
- (E) If a Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Percentage-Based Specified Time Period(s) or Volume-Based Specified Time Period(s). The Multi- Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.
- (F) When the System removes quotes as a result of the Percentage-Based Threshold or Volume- Based Threshold, the Market Maker must send a re-entry indicator to re-enter the System. When the System removes quotes as a result of the Multi- Trigger Threshold, the System will not accept quotes through designated protocols until the Market Maker manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Market Maker for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.
- (G) The Exchange will require Market Makers to utilize either the Percentage- Based Threshold or the Volume-Based Threshold. The Multi-Trigger Threshold is optional.

## **Registration, Qualification and Continuing Education (Rules 2000-2040)**

### **Rule 2000. Registration, Qualification and Continuing Education**

#### **Rule 2000. Reserved**

### **Rule 2040. Nonregistered Foreign Finders**

(a) Member organizations, and persons associated with a member organization, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations if the following conditions are met:

- (1) the member organization has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a

broker/dealer nor is subject to a disqualification as defined in Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

- (2) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;
- (3) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;
- (4) customers receive a descriptive document, similar to that required by Rule 206(4)- 3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;
- (5) customers provide written acknowledgment to the member organization of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;
- (6) records reflecting payments to finders are maintained on the member organization's books and actual agreements between the member organization and persons compensated are available for inspection by the Exchange; and
- (7) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

## **Rules Applicable to Trading of Options on Indices (Rules 1000A—1109A)**

### **Rule 1000A. Applicability and Definitions**

(a) **Applicability.** The Rules in this Section are applicable only to index options (options on indices of securities as defined below). In addition, except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to stock options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of index options.

(b) **Definitions.** The following terms as used in the Rules in this Section shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Options Clearing Corporation the current index value times the index multiplier.

(2) The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing Corporation the current index value times the index multiplier.

(3) The term "aggregate exercise price" means the exercise price of the option contract times the index multiplier.

(4) The term "exercise price" means the specific price per unit at which the current index value may be purchased in the case of a call or sold in the case of a put upon the exercise of the option.

(5) The term "underlying security" or "underlying securities" with respect to an index option contract means any of the securities that are the basis for the calculation of the index.

(6) The term "index multiplier" means the amount specified in the contract by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract.

(7) The term "current index value" in respect of a particular index means the level of the index that is derived from the reported prices of the underlying securities that are the basis of the index, as reported by the reporting authority for the index.

(8) The term "closing index value" in respect of a particular index means the last index value reported on a business day.

••• *Commentary:* -----

For any series of index options the Exchange may, in its discretion, provide that the calculation of the final index settlement value of any index on which options are traded at the Exchange will be determined by reference to the prices of the constituent stocks at a time other than the close of trading on the last trading day before expiration.

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(9) The term "reporting authority" in respect of a particular index means the institutions or reporting service designated by the Exchange as the official source for calculating and determining the current value or the closing index value of the index.

(10) The term "covered" in respect of a short position in an index call option contract in an account means that the writer holds in the same account a long position in an index call option for the same underlying index with the same index multiplier as the short call and the expiration date of the long call is the same as or subsequent to the expiration date of the short call and the exercise price of the long call is equal to or less than the exercise price of the short call. The term "covered" in respect of a short position in an index put option contract in an account means that the writer holds in the same account a long position in an index put option for the same underlying index with the same index multiplier as the short put and the expiration date of the long put is the same as or subsequent to the expiration date of the short put and the exercise price of the long put is equal to or greater than the exercise price of the short put.

(11) The terms "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

(12) The terms "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

••• *Commentary:* -----

The term "narrow-based index" includes indices the constituents of which are all headquartered within a single country.

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(13) The term "European option" or "European-style index option" means an option on an industry or market index that can be exercised only on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day prior to the day it expires.

(14) The term "expiration date" means, in the case of options on stock indexes, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange is not open for business, the preceding day on which the Exchange is open for business.

(15) The term "Quarterly Options Series" means a series in an index options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

(16) The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively.

(17) The term "American option" or "American-style index option" means an option on an industry or market index that can be exercised on any business day prior to expiration.

(18) The term "A.M. settled index option" means an index option for which the current index value at expiration shall be determined as provided in Rule 1101A(e).

**Rule 1001A. Position Limits**

(a) The position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market except as provided below. Certain positions must be aggregated in accordance with paragraph (d) or (e) below.

- (i) Respecting the Full Value Russell 2000<sup>®</sup> Options and the Reduced Value Russell 2000<sup>®</sup> Options, there shall be no position limits.
- (ii) Respecting the Full Value Nasdaq 100 Options and the Reduced Value Nasdaq 100 Options, there shall be no position limits.

(iii) Respecting the Full Value and Reduced Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000<sup>®</sup> Index, Russell 3000<sup>®</sup> Value Index, Russell 3000<sup>®</sup> Growth Index, Russell 2500<sup>™</sup> Index, Russell 2500<sup>™</sup> Value Index, Russell 2500<sup>™</sup> Growth Index, Russell 2000<sup>®</sup> Value Index, Russell 2000<sup>®</sup> Growth Index, Russell 1000<sup>®</sup> Index, Russell 1000<sup>®</sup> Value Index, Russell 1000<sup>®</sup> Growth Index, Russell Top 200<sup>®</sup> Index, Russell Top 200<sup>®</sup> Value Index, Russell Top 200<sup>®</sup> Growth Index, Russell MidCap<sup>®</sup> Index, Russell MidCap<sup>®</sup> Value Index, Russell MidCap<sup>®</sup> Growth Index, Russell Small Cap Completeness<sup>®</sup> Index, Russell Small Cap Completeness<sup>®</sup> Value Index and Russell Small Cap Completeness<sup>®</sup> Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

(b)(i) In determining compliance with Rule 1001, option contracts on a narrow-based (industry) index shall, subject to the procedures specified in subparagraph (iii) of this Rule, be subject to the following position limits:

- 18,000 contracts (or 54,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index) if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (b), that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or
- 24,000 contracts (or 72,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index) if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (b), that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or
- 31,500 contracts (or 94,500 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index)) if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred, or
- 44,000 contracts total with respect to the KBW Bank Index.

(ii) The Exchange shall make the determinations required by subparagraph (i) of this paragraph (b) with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(iii) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in subparagraph (i) of this paragraph (b), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (i) of this paragraph (b), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring option series relating to such particular industry index, which is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next succeeding semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (i) of this paragraph (b).

(c) *Reporting Requirements for Options on Market Indexes.*—Each member or member organization that maintains a position on the same side of the market in excess of 100,000 contracts for its own account or for the account of a customer in the Full Value Russell 2000® Options, RUT; or in excess of 100,000 contracts for its own account or for the account of a customer in Full Value Nasdaq 100 Options, NDX, must file a report with the Exchange that includes, but is not limited to, data related to the option positions, whether such positions are hedged and if applicable, a description of the hedge and information concerning collateral used to carry the positions. Registered Options Traders are exempt from this reporting requirement. For positions exceeding the position limit in paragraph (a), Commentary .01 contains the requirements for qualifying for the Index Hedge Exemption under this Rule.

(d) Except as provided in section (f) below with respect to options on Alpha Indexes, index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(e) *Aggregation*—Full value, reduced value, long term and quarterly expiring options based on the same index shall be aggregated. Reduced value or mini-size contracts shall be aggregated with full value or full-size contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in Short Term Options Series and Quarterly Options Series shall be aggregated with positions in options contracts of the same index. Nonstandard Expirations (as provided for in Rule 1101A(b)(vii)) on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

(f) The position limit for an option on an Alpha Index shall be 60,000 contracts on the same side of the market unless the Target Component of the Alpha Index is an exchange traded fund share, in which case the position limit shall be 15,000 contracts on the same side of the market. Positions in Alpha Index options will be aggregated with positions in equity options on the underlying securities for purposes of determining compliance with position limits.

••• *Commentary:* -----

**.01 Index Hedge Exemption.**

- (a) Index option positions may be exempt from established position limits for each option contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each option position to be exempted is hedged by a position in at least: (i) respecting industry index options, 75% of the number of component securities underlying the index, (ii) respecting market index options, 20 stocks in four industry groups comprising the index, of which no one component security accounts for more than 15% of the value of the portfolio hedging the index option position, or (iii) respecting Alpha Index options, each of the component securities underlying the index. In addition, the underlying value of the option position may not exceed the value of the underlying portfolio.
- (b) The value of the underlying portfolio is:
- (1) the total market value of the net stock position; less
  - (2) the value of:
    - (A) any offsetting calls and puts in the respective index option; and
    - (B) any offsetting positions in related stock index futures or options; and
    - (C) any economically equivalent positions.

The portfolio must be previously established and the options must be carried in an account with an Exchange member. Securities used as a hedge pursuant to this provision may not be used to hedge other option positions.

- (c) Prior Exchange approval on the appropriate form designated by the Exchange is required. In no event may position limits for any hedged industry index option exceed two times above the limits established under Rule 1001A(b)(i), in addition to that limit. In certain instances, the Exchange may determine to permit positions less than two times above the existing limits. An increase in the maximum number of contracts exempt from position limits may be requested periodically, as dollar values may warrant. This exemption is in addition to the position limit and any other exemptions available under Exchange Rules.
- (d) This exemption requires that both the options and stock positions be initiated and liquidated in an orderly manner. Specifically, a reduction of the options position must occur at or before the corresponding reduction in the stock portfolio position. Initiating or liquidating positions should not be conducted in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes or with a view toward taking advantage of any differential in price between a group of securities and an overlying stock position. The Exchange's Regulatory staff must be notified in writing for approval in advance of liquidating or initiating any such position as well as of any

material change in the portfolio or futures positions which materially effects the unhedged value of the qualified portfolio, as defined above.

- (e) The Exchange's Regulatory staff will monitor daily that each option contract is hedged by the equivalent dollar amount of component securities. In addition, the hedge exemption form must be kept current, with information updated as warranted. Any information concerning the dollar value and composition of the stock portfolio, or its equivalent, the current hedged and aggregate option positions, any stock index futures positions must be promptly provided to the Exchange.
- (f) If any member or member organization carrying an account which has received an exemption pursuant to this Rule has reason to believe that as a result of an opening transaction, the position telescoping provisions of this Rule, or the execution of CMTA transactions, that its customer, acting alone or in concert with others, directly or indirectly, violates this position limit exemption, then the member or member organization has violated this Rule. Violations of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the hedge exemption and subsequent denial of an application for a hedge exemption thereunder.

**.02 Firm Facilitation Exemption**—A member organization may be exempt from established position limits for index option positions held in its proprietary account where such position will facilitate an order for a customer of that member organization, provided that such position satisfies the following:

- (a) *Maximum limit*: the facilitating position may exceed the applicable position limit by two times that limit, in addition to the allowable amount. For example, where the position limit is 25,000 contracts, a firm facilitation exemption is available for an additional 50,000 contracts. This exemption is in addition to any other exemptions available under Exchange Rules.
- (b) *Approval Procedure*: prior approval from an Options Exchange Official and the submission of a complete Firm Facilitation Form, which must be kept current, are required. Approval may be granted on the basis of verbal representations, in which case the member organization shall submit to the Exchange's Regulatory staff a completed form respecting such approval within two business days or the time specified when approval is granted. A member organization may request an exemption based on interest expressed by its customer, prior to obtaining an order. This exemption is not available where either the customer or facilitation order are all or none or fill or kill orders.

The facilitation firm shall promptly provide the Exchange with information or documents requested concerning the exempted and hedging positions. A copy of all applicable order tickets must be provided to the Exchange's Regulatory staff on the day of execution.

The facilitation firm shall establish and liquidate its own as well as its customer's option and stock positions in an orderly fashion, and not in a manner calculated to cause



unreasonable price fluctuations or unwarranted price changes nor with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The facilitation firm shall notify the Exchange of any material change in the exempted option position or hedge. The facilitation firm shall not increase the exempt option position once it is liquidated unless prior approval is again received pursuant to this Rule.

- (c) *Facilitation Procedure*: compliance with the facilitation procedures of Options 8, Section 30(b) is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate.
- (d) *Hedge*: to remain qualified, the facilitation firm must hedge all exempt option positions within five business days after the execution of the order and furnish the Exchange's Regulatory staff with documentation reflecting the resulting hedged positions.
- (e) Violations of these requirements, absent reasonable justification or excuse, shall result, in addition to any disciplinary action, in withdrawal of the exemption and may form the basis for subsequent denial of an application for an exemption hereunder.

**.03 Exemptions Granted by Other Options Exchanges** - A member may rely upon any available exemptions from applicable position limits granted from time to time by another options exchange for any options contract traded on the Exchange provided that such member:

- (a) provides the Exchange with a copy of any written exemption issued by another options exchange or a written description of any exemption issued by another options exchange other than in writing containing sufficient detail for Exchange Regulatory staff to verify the validity of that exemption with the issuing options exchange, and
- (b) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the member's trading on the Exchange.

**.04 Delta-Based Index Hedge Exemption**

The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules. An index option position of a member or, non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed under this Rule 1001A, subject to the following:

- (A) The term "delta neutral" refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term "correlated instruments" means securities and/or other instruments that track the performance of or

are based on the same underlying index as the index underlying the option position (but not including baskets of securities).

(B) An index option position that is not delta neutral shall be subject to position limits in accordance with this Rule 1001A (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by units of trade that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

(C) A "permitted pricing model" shall have the meaning as defined in Exchange Rule 1001(n).

(D) Effect on Aggregation of Accounts

(1) Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such member or non-member affiliate.

(2) Notwithstanding subparagraph (D)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Exchange Rule 1001(k), exists between such affiliates or trading units; and

(ii) the entity has provided (by the member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

- (i) the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's or net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and
- (ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate .

(E) Obligations of Members

- (1) A member that relies on this exemption for a proprietary index options position:
  - (i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and
  - (ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in a correlated instrument to provide to the Exchange or the Options Clearing Corporation such information regarding such account or position as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.
- (2) The index option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.
- (3) A member carrying an account that includes an index option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member affiliate and must provide to the Exchange.
  - (i) a written certification to the Exchange that the non-member affiliate is using a permitted pricing model pursuant to subparagraph (C) above; and
  - (ii) a written statement confirming that such non-member affiliate:
    - (a) is relying on this exemption;
    - (b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;
    - (c) will promptly notify the member if it ceases to rely on this exemption;
    - (d) authorizes the member to provide to the Exchange or the Options Clearing Corporation such information regarding positions of the non-member affiliate as

the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

- (e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(F) Reporting.

Each member (other than an Exchange market-maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Exchange Rule 1003, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Commentary .04(D) of this Exchange Rule 1001A shall also report, in accordance with Exchange Rule 1003 for each such account that holds an index option position subject to this exemption in excess of the levels specified in this Exchange Rule 1001A, the net delta and the options contract equivalent of the net delta of such position.

(G) Records.

Each member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

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**Rule 1002A. Exercise Limits**

In determining compliance with Rule 1002, exercise limits for index option contracts shall be equivalent to the position limits described in Rule 1001A.

**Rule 1006A. Other Restrictions on Options Transactions and Exercises**

With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date.

**Rule 1009A. Designation of the Index**

(a) The underlying securities comprising the index shall be selected by the Exchange or by the index publisher if different from the Exchange and may be revised from time to time, if in the Exchange's or index publisher's discretion such revision is necessary or appropriate to maintain the quality and character of the index. The underlying securities that are the basis for the calculation of the index need not meet the requirements in Rule 1009. The listing of a class of

index options on a new underlying index will be treated by the Exchange as a proposed rule change subject to filing with and approved by the Securities and Exchange Commission ("Commission") under Section 19(b) of the Exchange Act.

(b) Notwithstanding paragraph (a) above, the Exchange may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

- (1) The options are designated as A.M.-settled index options;
- (2) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted, and consists of ten or more component securities;
- (3) Each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million;
- (4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;
- (5) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;
- (6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;
  - (i) With respect to the Gold/Silver Index, no single component shall account for more than 35% of the weight of the Index and the three highest weighted components shall not account for more than 65% of the weight of the Index. If the Index fails to meet this requirement, the Exchange shall reduce position limits to 8000 contracts on the Monday following expiration of the farthest-out, then trading, non-LEAP series.
- (7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Rule 1009 applicable to individual underlying securities;

- (8) Each component security must be an "NMS Stock" as defined in rule 600 of Regulation NMS under the Exchange Act;
  - (9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;
  - (10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;
  - (11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter and a modified capitalization-weighted index will be rebalanced at least twice annually;
  - (12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.
- (c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:
- (1) The conditions stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the conditions stated in subparagraph (b)(6) must be satisfied only as to the first day of January and July in each year;
  - (2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;
  - (3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;
  - (4) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of

index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, the Exchange may trade options on a broad-based (market) index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

- (1) The index is broad-based, as defined in Rule 1000A(b)(11);
- (2) Options on the index are designated as A.M.-settled index options;
- (3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;
- (4) The index consists of 50 or more component securities;
- (5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least \$ 75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least \$ 100 million;
- (6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Rule 1009 applicable to individual underlying securities;
- (7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;
- (8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;
- (9) Each component security must be an "NMS Stock" as defined in rule 600 of Regulation NMS under the Exchange Act;
- (10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;
- (11) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange;

- (12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index;
- (13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;
- (14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;
- (15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

- (1) The conditions set forth in subparagraphs (d)(1), (2), (3), (9), (10), (11), (12), (13), (14) and (15) must continue to be satisfied. The conditions set forth in subparagraphs (d)(5), (6), (7) and (8) must be satisfied only as of the first day of January and July in each year;
- (2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(f) Alpha Index Options

- (1) Alpha Index options will be A.M.-settled. The exercise settlement value will be based upon the opening prices of the individual stock or ETF from the primary listing market on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date.
- (2) At the time of listing an Alpha Index option, options on each underlying component of an Alpha Index will also be listed and traded on the Exchange and will meet the requirements of Rule 1009, Criteria for Underlying Securities. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,250,000 shares per day in the preceding twelve months.



- (3) Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index will continue to meet the continued listing standards set forth by PHLX Rule 1010, Withdrawal of Approval of Underlying Securities or Options. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,000,000 shares per day in the preceding twelve months.
- (4) No Alpha Index option will be listed unless and until options overlying each of the Alpha Index component securities have been listed and traded on a national securities exchange with an average daily options trading volume during the three previous months of at least 10,000 contracts. Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index must continue to meet this options average daily volume standard.

#### **Rule 1042A. Exercise of Option Contracts**

With respect to index option contracts, clearing members are required to follow the procedures of the Options Clearing Corporation for tendering exercise notices. Clearing Members must follow the procedures of the Options Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in any account at the Option Clearing Corporation. Member organizations must also follow the procedures set forth below with respect to American-style cash-settled index options:

- (i) For all contracts exercised by the member organization or by any customer of the member organization, an "exercise advice" must be time stamped and delivered by the member organization in such form or manner prescribed by the Exchange no later than five (5) minutes after the close of trading on that day.
- (ii) Subsequent to the delivery of an "exercise advice," should the member organization or a customer of the member organization determine not to exercise all or part of the advised contracts, the member organization must also deliver an "advice cancel" in such form or manner prescribed by the Exchange no later than five (5) minutes after the close of trading on that day.
- (iii) The Exchange may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph if unusual circumstances are present.
- (iv) No member organization may time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the member organization knew or had reason to know that the contracts had not yet been purchased.
- (v) The failure of any member organization to follow the procedures in this rule may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

- (vi) Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.
- (vii) The procedures set forth in subparagraphs (i)-(ii) above do not apply (a) on the business day prior to expiration in series expiring on a day other than a business day or (b) on the expiration day in series expiring on a business day.
- (viii) Each member organization shall prepare a memorandum of every exercise instruction received showing by time stamp the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rule 17a-4(b).
- (ix) Each member organization shall establish fixed procedures to ensure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

#### **Rule 1047A. Trading Rotations, Halts or Reopenings**

##### **(a) Openings:**

- (i) *Industry Index*—The opening rotation for industry index options may be held after the Exchange has received the opening price of the underlying index.

Once the Exchange has received the opening price of the underlying index, the opening rotation shall be held as soon as practicable.

- (ii) *Market Index*—With respect to openings conducted manually, the opening rotation for market index options shall be held at or as soon as practicable after the opening of business on the Exchange.

Respecting openings conducted manually, the specialist shall open first those series of an index option which have the nearest expiration. Thereafter, the specialist shall open the remaining series in a manner he deems appropriate under the circumstances. One and one-half hours after the rotation, trading shall become subject to paragraph (c) of this Rule, unless an Options Exchange Official determines it is in the public interest to halt trading at an earlier time.

- (iii) For the purposes of this Rule, an underlying security shall be deemed to have opened for trading on the primary market if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening.
- (iv) With respect to automated openings in an Industry or Market Index conducted pursuant to Rule 1017, the system will automatically open such options when the Exchange has received the opening price of the underlying index.

(v) An automated opening conducted pursuant to Rule 1017 shall be considered a "rotation" for purposes of this Rule.

(b) **Modified Rotations:** In addition to the opening rotation procedure provided in paragraph (a) of this Rule, the specialist may conduct a rotation in accordance with Rule 1047, Commentary .01 (b).

(c) **Halts:** Trading on the Exchange in any option may be halted with the approval of an Options Exchange Official, whenever trading on the primary market in any underlying security is halted or suspended. Trading shall be halted whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are the following:

- (i) trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;
- (ii) the current calculation of the index derived from the current market prices of the stocks is not available;
- (iii) a Trading System (for purposes of this Rule, "Trading System" is defined as Phlx XL II, or any other Exchange quotation, transaction reporting, execution, order routing or other systems for trading options) technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system; or;
- (iv) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.
- (v) In the event that trading is halted on the primary market in any underlying security, the specialist may halt trading in the option overlying such index, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.

Trading in options on any Alpha Index may be halted for the same reasons as other index options pursuant to this Rule, and shall be halted when trading is halted in options overlying either of the two index component securities.

(d) **Reopenings:** Trading in any class or series of index options that has been subject of a halt by the Exchange may be resumed upon a determination by an Options Exchange Official that the conditions which led to the halt are no longer present. In addition, an Options Exchange Official must conclude in his best judgment that the interests of a fair and orderly market are served by a resumption of trading. The definition of "open for trading" appears in subparagraph (a)(iii) above.

(e) No closing rotation for expiring index options shall be required.

(f) **Index Options Trading after 4:00 P.M.:** With the prior approval of an Options Exchange Official, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided:

- (i) Promptly after trading in underlying securities opens or re-opens, the trading rotation in any Exchange commences an opening or re-opening rotation in the corresponding options class pursuant to paragraphs (a), (b) or (d) above; or
- (ii) If prior to 4:00 P.M., a trading rotation is in progress and an Options Exchange Official, determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 P.M. Any trading rotation commenced after 4:00 P.M. must be approved by an Options Exchange Official.
- (iii) Index Options Trading after 4:15 P.M.—in applying this provision to broad-based index options, the relevant time is 4:15 P.M.

**Rule 1100A. Dissemination of Information**

(a) The Exchange shall disseminate or shall assure that the closing index value is disseminated after the close of business and the current index value is disseminated from time-to-time on days on which transactions in index options are made on the Exchange.

(b) The Exchange shall maintain, in files available to the public, information identifying the stocks whose prices are the basis for calculation of the index and the method used to determine the current index value.

**Rule 1101A. Terms of Option Contracts**

(a) *General.*

- (1) *Meaning of Premium Bids and Offers.* Bids and offers shall be expressed in terms of dollars and decimal equivalents of dollars per unit of the index (e.g., a bid of 85.50 would represent a bid of \$85.50 per unit).
- (2) *Exercise Prices.* Meaning of Premium Bids and Offers. Bids and offers shall be expressed in terms of dollars and decimal equivalents of dollars per unit of the index (e.g., a bid of 85.50 would represent a bid of \$85.50 per unit).
- (A) PHLX Gold/Silver Index, if the strike price is less than \$200,
- (B) PHLX Housing Index, if the strike price is less than \$200,
- (C) PHLX Oil Service Index, if the strike price is less than \$200,
- (D) PHLX Semiconductor Index, if the strike price is less than \$200,

- (E) PHLX Utility Index, if the strike price is less than \$200,
- (F) PHLX/KBW Bank Index, if the strike price is less than \$200,
- (G) Russell 2000<sup>®</sup> Index, if the strike price is less than \$200,
- (H) Reduced Value Russell 2000<sup>®</sup> Index, if the strike price is less than \$200,
- (I) Reduced Value Nasdaq 100<sup>®</sup> Index (Reduced Value Nasdaq 100<sup>®</sup> Options),
- (J) Reduced value long term options, also known as LEAPS;
- (K) Russell 3000<sup>®</sup> Index, if the strike price is less than \$200;
- (L) Russell 3000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (M) Russell 3000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (N) Russell 2500<sup>™</sup> Index, if the strike price is less than \$200;
- (O) Russell 2500<sup>™</sup> Value Index, if the strike price is less than \$200;
- (P) Russell 2500<sup>™</sup> Growth Index, if the strike price is less than \$200;
- (Q) Russell 2000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (R) Russell 2000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (S) Russell 1000<sup>®</sup> Index , if the strike price is less than \$200;
- (T) Russell 1000<sup>®</sup> Value Index , if the strike price is less than \$200;
- (U) Russell 1000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (V) Russell Top 200<sup>®</sup> Index , if the strike price is less than \$200;
- (W) Russell Top 200<sup>®</sup> Value Index , if the strike price is less than \$200;
- (X) Russell Top 200<sup>®</sup> Growth Index , if the strike price is less than \$200;
- (Y) Russell MidCap<sup>®</sup> Index , if the strike price is less than \$200;
- (Z) Russell MidCap<sup>®</sup> Value Index , if the strike price is less than \$200;
- (AA) Russell MidCap<sup>®</sup> Growth Index, if the strike price is less than \$200;

- (BB) Russell Small Cap Completeness<sup>®</sup> Index , if the strike price is less than \$200;
- (CC) Russell Small Cap Completeness<sup>®</sup> Value Index, if the strike price is less than \$200;
- (DD) Russell Small Cap Completeness<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (EE) Reduced Value Russell 3000<sup>®</sup> Index, if the strike price is less than \$200;
- (FF) Reduced Value Russell 3000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (GG) Reduced Value Russell 3000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (HH) Reduced Value Russell 2500<sup>™</sup> Index, if the strike price is less than \$200;
- (II) Reduced Value Russell 2500<sup>™</sup> Value Index, if the strike price is less than \$200;
- (JJ) Reduced Value Russell 2500<sup>™</sup> Growth Index, if the strike price is less than \$200;
- (KK) Reduced Value Russell 2000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (LL) Reduced Value Russell 2000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (MM) Reduced Value Russell 1000<sup>®</sup> Index , if the strike price is less than \$200;
- (NN) Reduced Value Russell 1000<sup>®</sup> Value Index , if the strike price is less than \$200;
- (OO) Reduced Value Russell 1000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (PP) Reduced Value Russell Top 200<sup>®</sup> Index , if the strike price is less than \$200;
- (QQ) Reduced Value Russell Top 200<sup>®</sup> Value Index , if the strike price is less than \$200;
- (RR) Reduced Value Russell Top 200<sup>®</sup> Growth Index , if the strike price is less than \$200;
- (SS) Reduced Value Russell MidCap<sup>®</sup> Index , if the strike price is less than \$200;
- (TT) Reduced Value Russell MidCap<sup>®</sup> Value Index, if the strike price is less than \$200;
- (UU) Reduced Value Russell MidCap<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (VV) Reduced Value Russell Small Cap Completeness<sup>®</sup> Index , if the strike price is less than \$200;
- (WW) Reduced Value Russell Small Cap Completeness<sup>®</sup> Value Index, if the strike price is less than \$200;

(XX) Reduced Value Russell Small Cap Completeness<sup>®</sup> Growth Index, if the strike price is less than \$200;

(3) *Strike Prices.* The Exchange may also determine to list strike prices at no less than \$2.50 intervals for options on indexes delineated in this rule in response to demonstrated customer interest or specialist request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account.

(A) Notwithstanding any other provision regarding strike prices in this Rule 1101A, non-Short Term Options that are on an index class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in this Rule 1101A(b)(4) and in the same strike price intervals that are permitted in this Rule 1101A(b)(4).

(4) *Expiration Months and Weeks.* Index options contracts may expire at three (3)-month intervals or in consecutive weeks or months. The Exchange may list: (i) up to six (6) standard monthly expirations at any one time in a class, but will not list index options that expire more than twelve (12) months out; (ii) up to 12 standard monthly expirations at any one time for any class that the Exchange (as the Reporting Authority) uses to calculate a volatility index; and (iii) up to 12 standard (monthly) expirations in NDX options.

(b) After a particular class of stock index options has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Within each approved class of stock index options, the Exchange shall open for trading a minimum of one expiration month and series for each class of approved stock index options and may also open for trading series of options having not less than nine and up to 60 months to expiration (long-term options series) as provided in subparagraph (b)(2). Prior to the opening of trading in any series of stock index options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(1) Additional series of stock index options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying index moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an index may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on indexes until the fourth business day prior to the business day of expiration, or, in the case of an index option contract expiring on a day that is not a business day, up to the fifth business day prior to expiration.

**(2) Long-term Option Series**

The Exchange may list, with respect to any class of stock index options, series of options having not less than nine and up to 60 months to expiration, adding up to ten expiration months. Such series of options may be opened for trading simultaneously with series of options trading pursuant to this rule. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

### **(3) Quarterly Options Series Program**

The Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either Index Options or options on Exchange Traded Funds. In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules.

(A) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters as well as the fourth quarter of the next calendar year.

(B) Quarterly Options Series shall be P.M. settled.

(C) The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but not more than five, strike prices above and two, but not more than five, strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may open for trading additional Quarterly Options Series of the same class if the Exchange deems it necessary to maintain an orderly market, to meet customer demand or the current index value of the underlying index moves substantially from the exercise price of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional Quarterly Options Series that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. The Exchange may open additional strike prices of a Quarterly Options Series that are above the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five. The Exchange may open additional strike prices of a Quarterly Options Series that are below the value of the underlying index provided that the total number of strike prices below the value of the underlying index



is no greater than five. The opening of any new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(D) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

#### **(4) Short Term Option Series Program**

After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(A) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(B) No Short Term Option Series on an index option class may expire in the same week during which any monthly option series on the same index class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same index class.

(C) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index.

(D) If the Exchange has opened less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current value of the underlying index moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current value of the underlying index provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Rule 1101A(b)(4), that are between 10% and 30% above or below the price of the underlying security. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(E) The interval between strike prices on Short Term Option Series may be (1) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all index classes that participate in the Short Term Option Series Program; or (2) \$0.50 for index classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program. Related non-Short Term Option series shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Rule 1101A(b)(4) and in the same strike price intervals that are permitted in this Rule 1101A(b)(4).

#### **(5) Nonstandard Expirations Pilot Program**

(A) Weekly Expirations. The Exchange may open for trading Weekly Expirations on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). Weekly Expirations shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that Weekly Expirations

shall be P.M.-settled and new series in Weekly Expirations may be added up to and including on the expiration date for an expiring Weekly Expiration.

The maximum number of expirations that may be listed for each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class is the maximum number of expirations permitted for standard index options in Rule 1101A(a)(4). Weekly Expirations need not be for consecutive Monday, Wednesday, or Friday expirations as applicable; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are initially listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Monday, Wednesday, or Friday and the Exchange lists EOMs and Weekly Expirations as applicable in a given class, the Exchange will list an EOM instead of a Weekly Expiration in the given class. Other expirations in the same class are not counted as part of the maximum number of Weekly Expirations for a broad-based index class. If the Exchange is not open for business on a respective Monday, the normally Monday expiring Weekly Expirations will expire on the following business day. If the Exchange is not open for business on a respective Wednesday or Friday, the normally Wednesday or Friday expiring Weekly Expirations will expire on the previous business day.

(B) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOMs shall be P.M.-settled and new series in EOMs may be added up to and including on the expiration date for an expiring EOM.

The maximum number of expirations that may be listed for EOMs in a given class is the same as the maximum number of expirations permitted for standard options on the same broad-based index. EOM expirations need not be for consecutive end of month expirations; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(C) Duration of Nonstandard Expirations Pilot Program. The Nonstandard Expirations Pilot Program shall be through May 4, 2020.

(D) Weekly Expirations and EOM Trading Hours. Transactions in Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:15 pm (Eastern Time), except that on the last trading day, transactions in

expiring Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time ) and 4:00 p.m. (Eastern time).

(c) On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date of a particular series of index options, such option shall freely trade until 4:00 P.M., unless the Board of Directors has established different hours of trading for certain index options.

(d) Index Values for Settlement. The Rules of the Options Clearing Corporation specify that, unless the Rules of the Exchange provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index value for the day on which the index options contract is exercised in accordance with the Rules of the Options Clearing Corporation or, if such day is not a business day, for the most recent business day.

(e) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Options Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(I) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Rule 1101A(g), unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Options Clearing Corporation; and

(II) in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on the Exchange:

(i) PHLX Semiconductor Sector

(ii) PHLX Housing Sector

(iii) PHLX Oil Service Sector

(iv) KBW Bank Index

(v) Full Value Nasdaq 100 Options

(vi) Reduced Value Nasdaq 100 Options

(f) **Index Level.** The reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(g) **Pricing When Primary Market Does Not Open.** When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Options Clearing Corporation.

••• **Commentary:** -----

**.01** Transactions in broad-based (market) index options traded on the Exchange, including Full Value Russell 2000<sup>®</sup> Options and Reduced Value Russell 2000<sup>®</sup> Options, Full and Reduced Value Russell 3000<sup>®</sup> Index, Full and Reduced Value Russell 3000<sup>®</sup> Value Index, Full and Reduced Value Russell 3000<sup>®</sup> Growth Index, Full and Reduced Value Russell 2500<sup>™</sup> Index, Full and Reduced Value Russell 2500<sup>™</sup> Value Index, Full and Reduced Value Russell 2500<sup>™</sup> Growth Index, Full and Reduced Value Russell 2000<sup>®</sup> Value Index, Full and Reduced Value Russell 2000<sup>®</sup> Growth Index, Full and Reduced Value Russell 1000<sup>®</sup> Index, Full and Reduced Value Russell 1000<sup>®</sup> Value Index, Full and Reduced Value Russell 1000<sup>®</sup> Growth Index, Full and Reduced Value Russell Top 200<sup>®</sup> Index, Full and Reduced Value Russell Top 200<sup>®</sup> Value Index, Full and Reduced Value Russell Top 200<sup>®</sup> Growth Index, Full and Reduced Value Russell MidCap<sup>®</sup> Index, Full and Reduced Value Russell MidCap<sup>®</sup> Value Index, Full and Reduced Value Russell MidCap<sup>®</sup> Growth Index, Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Index, Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Value Index, and Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Growth Index and Full Value Nasdaq 100 Options and Reduced Value Nasdaq 100 Options may be effected on the Exchange until 4:15 P.M. each business day, through the expiration date. Transactions in Alpha Index options may also be effected on the Exchange until 4:15 P.M. each business day, through the expiration date.

**.02** Notwithstanding subsection (a) to this Rule 1101A, the interval between strike prices of series of Reduced Value Nasdaq 100 Options will be \$1 or greater, subject to following conditions:

- (a) **Initial Series.** The Exchange may list series at \$1 or greater strike price intervals for Reduced Value Nasdaq 100 Options, and will list at least two strike prices above and two strike prices below the current value of the Nasdaq-100 Index at about the time a

series is opened for trading on the Exchange. The Exchange shall list strike prices for Reduced Value Nasdaq 100 Options that are within 5 points from the closing value of the Nasdaq-100 Index on the preceding day.

- (b) **Additional Series.** Additional series of the same class of Reduced Value Nasdaq 100 Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the underlying Nasdaq-100 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of the Nasdaq-100 Index. The Exchange may also open additional strike prices that are more than 30% above or below the current Nasdaq-100 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in Reduced Value Nasdaq 100 Options.
- (c) The Exchange shall not list LEAPS on Reduced Value Nasdaq 100 Options at intervals less than \$2.50.
- (d) (1) **Delisting Policy.** With respect to Reduced Value Nasdaq 100 Options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of the Nasdaq-100 Index, and delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.
- (2) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Reduced Value Nasdaq 100 Options series eligible for delisting shall be granted.
- (3) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Reduced Value Nasdaq 100 Options.

**.03** Notwithstanding subsection (a) to this Rule 1101A, the interval between strike prices of series of options on the PHLX Gold/Silver Index, PHLX Housing Index, PHLX Oil Service Index, SIG Oil Exploration & Production Index™, PHLX Semiconductor Index, KBW Bank Index, SIG Energy MLP Index™, and Reduced Value Russell 2000® Index (individually the "\$1 Index" and together the "\$1 Indexes"), which may

also be known as sector indexes, will be \$1 or greater, subject to following conditions:

- (a) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for each \$1 Index, and will list at least two strike prices above and two strike prices below the current value of each \$1 Index at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for each \$1 Index that are within 5 points from the closing value of each \$1 Index on the preceding day.
- (b) Additional Series. Additional series of the same class of each \$1 Index may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when each underlying \$1 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of each \$1 Index. The Exchange may also open additional strike prices that are more than 30% above or below each current \$1 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in \$1 Indexes.
- (c) The Exchange shall not list LEAPS on \$1 Indexes at intervals less than \$2.50.
- (d) (1) Delisting Policy. With respect to each \$1 Index added pursuant to the above paragraphs, the Exchange will regularly review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of each \$1 Index, and in each \$1 Index may delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.
- (2) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in \$1 Index options eligible for delisting may be granted.

**.04** Notwithstanding subsection (a) to this Rule 1101A, the interval between strike prices of series of Alpha Index options will be \$1 or greater. The Exchange will list at least two strike prices above and two strike prices below the current value of each Alpha Index option at about the time a series is opened for trading on the Exchange. The Exchange may also list additional strike prices at any price point, with a minimum of a \$1.00 interval between strike prices, as required to meet the needs of customers.

**.05** The procedures set forth in Exchange rules for determining the current index value at expiration shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of The Options Clearing Corporation.

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**Rule 1102A. Limitation of Exchange Liability**

Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current index value or the closing index value resulting from any negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities; or any error, omission or delay in the reports of the current index value or the closing index value by the Exchange or the reporting authority.

**Rule 1103A. Margins**

Rescinded effective October 1, 1985.

**Rule 1105A. Standard & Poor's® Index**

Standard & Poor's®, a division of McGraw-Hill Companies, Inc. makes no warranty, express or implied, as to results to be obtained by any person or any entity from the use of the S&P 500® Index or any data included therein in connection with the trading of option contracts thereon, or for any other use. Standard & Poor's® makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the S&P 500® Index or any data included therein in connection with the trading of options contracts thereon, or for any other use.

**Rule 1107A. Nasdaq, Inc. Indexes**

Nasdaq, Inc. ("Nasdaq") does not guarantee the accuracy and/or uninterrupted calculation of any Nasdaq Index (including, but not limited to, the NASDAQ-100 Index® and the NASDAQ Internet Index<sup>SM</sup>) or any data included therein. Nasdaq makes no warranty, express or implied, as to results to be obtained by the Exchange, owners of options on any Nasdaq Index, or any other person or entity from the use of any Nasdaq Index or any data included therein. Nasdaq makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any Nasdaq Index or any data included therein. Without limiting any of the foregoing, in no event shall Nasdaq have any liability for any lost profits or special, incidental, punitive, indirect, or consequential damages, even if notified of the possibility of such damages.

**Rules Applicable to Trading of Options on Treasury Securities (Rules 1000D - 1025D)**

**Rule 1000D. Applicability of 1000D Series -Treasury Securities Options**



Unless otherwise specified, the rules in this 1000D Series are applicable only to options on Treasury Securities of the United States Government ("Government") as defined below (Treasury securities"). These rules apply to all options on Treasury securities that are notes or bonds, as defined. Except to the extent that specific rules in this Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of options on Treasury securities.

#### **Rule 1001D. Definitions - Treasury Securities Options**

(a) The following terms as used in the Rules in this Series shall, unless the context otherwise indicates, have the meanings herein specified regarding options on Treasury securities.

- (1) *Treasury Securities* - The term "Treasury securities" (also known as Treasury debt securities) means a bond or note or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest (except debt securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association). Securities issued or guaranteed by individual departments or agencies of the United States are sometimes referred to by the title of the department or agency involved (e.g. a "Treasury security" is a debt instrument that is issued by the United States Treasury).
- (2) *Treasury note* - The term "Treasury note" means a note issued by the U.S. Treasury with a term to maturity of at least two years but no more than ten years at the time of original issuance.
- (3) *Treasury bond* - The term "Treasury bond" means a bond issued by the U.S. Treasury with a term to maturity of more than ten years at the time of original issuance.
- (4) *Specific cusip option* - The term "specific cusip option" means an option having a specifically identified underlying Treasury security, which is required to be delivered upon exercise.
- (5) *Exercise Price* - The term "exercise price" in respect of a specific cusip option means the specified price at which the underlying Treasury security may be purchased or sold upon the exercise of the option contract.
- (6) *Aggregate Exercise Price* - The term "aggregate exercise price" in respect of a specific cusip option means the exercise price of an option contract multiplied by the principal amount of the underlying Treasury security covered by the option.
- (7) *Covered* - The term "covered" in respect of a short position in a Treasury securities call option contract means that the writer holds in the same account on a principal for principal basis: (1) a long position in underlying Treasury securities that qualify for delivery upon exercise; (2) a long Treasury securities call option position for the same underlying security as the short call position where the expiration date of the long call

position is the same as or subsequent to the expiration date of the short call position and the exercise price(s) of the long call position is equal to or less than the exercise price of the short call position; or (3) a custodial or Treasury securities escrow receipt pursuant to Rule 1022D. The term "covered" in respect of a short position in a Treasury securities put option contract means that the writer holds in the same account on a principal for principal basis: (1) a long Treasury securities put option position for the same underlying security as the short put position where the expiration date of the long put position is the same as or subsequent to the expiration date of the short put position and the exercise price(s) of the long put position is equal to or greater than the exercise price of the short put position or (2) a Treasury securities put guarantee letter pursuant to Rule 1022D.

### **Rule 1002D. Position Limits - Treasury Securities Options**

(a) *Establishment of Position Limit.* In determining position limit compliance, options on a Treasury security shall be subject to a contract limitation (whether long or short) of the put type and the call type on the same side of the market covering a value no greater than 7.5% of the value of the initial or reopened public issuance, rounded to the next lower \$100 million interval, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other lower amount of options as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options.

(1) In no event shall the position limit exceed a position on either side of the market covering a value in excess of \$750,000,000 of the underlying securities.

(2) Reasonable notice shall be given of each new position limit fixed by the Exchange, by notifying members thereof via Options Trader Alert ("OTA").

(b) *Maintenance of Position Limit.* In the event that any of the underlying Treasury securities are reported as "separate trading of registered interest and principal of securities" ("strips") in the Monthly Statement of the Public Debt of the United States Government, or such other report or compilation as may be selected from time to time by the Exchange, such stripping shall be taken into account in determining whether the position limit as initially established under paragraph (a) ("the established position limit") can be maintained (the remaining non-stripped underlying securities are hereinafter referred to as "the non-stripped securities").

(1) The established position limit may remain so long as the position limit covers a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities. In the event that the established position limit covers a principal amount of securities in excess of 7.5% of the non-stripped securities, the Exchange shall reestablish the position limit to cover a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities. Revisions to the position limits as provided herein will become effective the Monday following the provision of notice thereof via OTA.

(2) Except as otherwise exempted under Exchange rules, persons whose positions exceed revised position limits may only engage in liquidating transactions until their positions are lower than the revised position limits.

**Rule 1003D. Exercise Limits - Treasury Securities Options**

In determining exercise limit compliance, the exercise limits for options on a Treasury security shall be equivalent to the position limits prescribed in Rule 1002D.

**Rule 1004D. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options**

For purposes of Rules 1003 and 1004, references to Rule 1001 in connection with position limits shall be deemed, in the case of Treasury securities options, to be to Rule 1002D. The reference in Rule 1003(a) to reports required of positions of 200 or more options shall, in the case of Treasury securities options, be revised to positions of options covering \$2 million or more principal amount of underlying Treasury securities, for example, the 3.125% bonds due in the year 2042.

**Rule 1005D. Designation of Treasury Securities Options**

Treasury securities options dealt in on the Exchange are designated by reference to the issuer of the underlying Treasury security, principal amount, expiration month (and year for the longest term option series), exercise price or nominal exercise price, type (put or call), stated or nominal rate of interest and stated date of maturity or nominal term to maturity (e.g. a specific cusip call option expiring in March and having an exercise price of 96 of the \$10,000 principal amount of a 3 3/4% Treasury bond that matures on August 15, 2041, is designated as a Treasury 3 3/4%—8/15/41 March 96 call.

**Rule 1006D. Criteria for Securities Underlying Treasury Securities Options**

(a) Treasury securities may be approved by the Exchange as underlying securities for Exchange transactions in specific cusip options, subject to such requirements as to size of original issuance, aggregate principal amount outstanding, and years to maturity.

- (1) The original public sale of an underlying Treasury security shall be at least \$1 billion principal amount.
- (2) In order to limit underlying Treasury securities that are approved for specific cusip options listings to the most recently issued and actively traded Treasury securities, Exchange approval of a Treasury security underlying Treasury options will only extend to the settled on-the-run Treasury security ("options listing timeframe"). However, the Exchange shall not approve a subsequent settled on-the-run Treasury security until after the expiration of all the options that are listed pursuant to the preceding options listing timeframe.

Any additional series of specific cusip Treasury options overlying the settled, on-the-run Treasury security may be opened only within the options listing timeframe.

- (A) Notwithstanding, such Exchange approval of an underlying Treasury security may be extended in the event of the reopening of the underlying Treasury security by the Treasury, or in the event of issues where a reasonably active secondary market exists; and

- (B) Prior to the end of an options listing timeframe, the Board (or a designee of the Board) shall withdraw approval of an underlying Treasury security at any time if it determines on the basis of information made publicly available by the Treasury that the security has a public issuance of less than \$750 million, excluding stripped securities.

**Rule 1007D. Withdrawal of Approval of Underlying Treasury Securities or Options**

(a) The Board (or a designee of the Board) may determine, for any reason, to withdraw approval of any Treasury security that was initially approved for options trading pursuant to Rule 1006D as underlying securities.

(b) After any announcement by the Exchange of any such withdrawal or approval, each member organization shall, if requested by a customer to effect an option transaction in such Treasury securities, inform such customer of the withdrawal of approval prior to affecting any transactions in such securities.

**Rule 1008D. Terms of Treasury Securities Options**

(a) *General.* A single Treasury security option covers \$10,000 principal amount of the underlying security. The expiration month and exercise price of Treasury security options of each series shall be determined by the Exchange at the time each series of options is first opened for trading.

(b) *Expiration Months.* Treasury security options will expire on a monthly basis, none further out than the options listing timeframe as defined in Rule 1006D.

(c) *Exercise.* Treasury security options may be exercised only on the day that they expire. The exercise price of each series of Treasury security options shall be fixed at a price denominated in \$0.50. In the case of a specific cusip Treasury security option, the exercise price so determined shall be reasonably close to, and no more than 20% higher or lower than, the price at which the underlying security is traded in the primary market at the time the series of options is first opened for trading. The exercise price of such additional series will be fixed at a multiple of \$0.50.

**Rule 1009D. Series of Treasury Securities Options Open for Trading**

(a) *Initial Series of Specific Cusip Options.* The Exchange may open for trading specific cusip Treasury security options at any time following the auction sale of the underlying security. At the time options are initially opened for trading on a newly auctioned underlying Treasury security, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading, pursuant to the requirements of Rule 1006D.

(b) *Additional Series of Options to Reflect Price Changes.* After a class of specific coupon Treasury security options has been opened for trading in accordance with paragraph (a) of this Rule, additional series of options of the same class may be opened when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or to reflect substantial changes in prices of the underlying Treasury securities, pursuant to the requirements of Rule 1006D.

**Rule 1010D. Days and Hours of Business of Treasury Securities Options**

Hours during which Treasury securities options transactions may be made on the Exchange shall correspond to the hours during which equity options are normally traded.

**Rule 1011D. Trading Rotations - Treasury Securities Options**

Rule 1047 regarding trading rotations, halts and suspensions shall be applicable to Treasury securities options.

**Rule 1012D. Trading Halts and Suspension of Trading, Obvious and Catastrophic Errors - Treasury Securities Options**

(a) Trading Halts and Suspension of Trading. In addition to the factors set forth in Rule 1047, a factor that may be considered by Options Exchange Officials in connection with the institution of trading halts is that current quotations for the underlying Treasury securities are unavailable or have become unreliable; or that there is a need to prevent an unfair and disorderly market.

(b) Errors. Rule 1092 regarding obvious errors and catastrophic errors shall be applicable to Treasury securities options.

**Rule 1013D. Minimum Increment and Meaning of Premium Bids and Offers for Treasury Securities Options**

(a) Treasury securities options shall have a minimum increment of \$.01.

(b) Bids and offers for Treasury securities options shall be expressed in \$.01 increments.

**Rule 1014D. Specialist and Registered Option Trader Obligations and Electronic Trading - Treasury Securities Options**

Rule 1014 regarding obligations and restrictions applicable to specialists and registered options traders and Rule 1080 regarding Phlx XL and XL II shall be applicable to Treasury securities options.

**Rule 1015D. Accommodation Trading - Treasury Securities Options**

Accommodation trading under the applicable terms and conditions of Options 8, Section 33 shall be available in each series of Treasury securities option contracts open for trading on the Exchange. However, bids or offers for opening transactions at a price of \$1 per option contract may be executed only with closing transactions that cannot at that time in open outcry be executed with another closing transaction.

**Rule 1016D. Reconciliation of Unmatched Trades - Treasury Securities Options**

All members, member firms, and clearing members shall resolve unmatched trades in Treasury securities options from the previous day's trading no later than 9:00 a.m. (Eastern Time) of the following business day.

**Rule 1018D. Limit Book for Treasury Securities Options**

There shall be a limit order book for Treasury securities options.

**Rule 1019D. Bid / Ask Differentials - Treasury Securities Options**

(a) Without limiting the general obligation to deal for his account as stated in Rule 1014, a Specialist or Registered Options Trader holding an appointment in Treasury securities options, in the course of maintaining a fair and orderly market, is expected to bid and/or ask (offer) so as to create differences of:

- (1) no more than \$0.25 between the bid and offer for each option contract for which the bid is less than \$1;
- (2) no more than \$0.50 where the bid is \$1 or more but less than \$5;
- (3) no more than \$0.80 where the bid is \$5 or more but less than \$10 ; and
- (4) no more than \$1 where the bid is \$10 or more.

(b) The bid/ask differentials specified in this rule shall apply only to the two nearest term series of each class of Treasury securities options. For all longer term series the maximum bid/ask differentials are double those listed above.

**Rule 1020D. Allocation of Exercise Assignment Notices - Treasury Securities Options**

(a) In the case of Treasury securities options, the method of allocation of exercise notices established pursuant to Rule 1043 may provide that an exercise notice of block size shall be allocated to a customer or customers having an open short position of block size and that an exercise notice of less than block size shall not be allocated, to the extent feasible, to a customer having a short position of block size.

(b) A member organization shall allocate an exercise notice pertaining to a call option contract to a customer who has made a specific deposit of the underlying security if it is directed to do so by The Options Clearing Corporation ("OCC").

(c) For the purposes of this Rule, an exercise notice or a short position in a series of options where the total principal amount is \$1 million or more and where the underlying security is a Treasury security shall be deemed to be of "block size."

**Rule 1021D. Delivery and Payment - Treasury Securities Options**

Payment of the aggregate exercise price shall be accompanied by payment of accrued interest on the underlying Treasury security from but not including the last interest payment date to and including the exercise settlement date as specified in the Rules of the OCC.

**Rule 1022D. Margin Requirements - Treasury Securities Options**

Exchange member organizations shall comply with initial and maintenance margin requirements per Rule 721.

**Rule 1023D. Furnishing of Books, Records and Other Information - Treasury Securities Options**

(a) No specialists or Remote Options Traders in Treasury securities options shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such member or any corporate affiliate of such member pertaining to transactions by such member or any such affiliate for its own account in Treasury securities, Treasury securities futures or in Treasury securities options as may be called for under the Rules or as may be requested in the course of any investigation, any inspection or other official inquiry by the Exchange. In addition, the provisions governing identification of accounts and reports of orders shall, in the case of specialists or Registered Options Traders in Treasury securities options, apply to (i) accounts for Treasury securities deliverable under the terms of the option contracts involved, Treasury securities futures, options on Treasury securities futures and Treasury securities options trading; and (ii) orders entered by the specialist or Registered Options Trader for the purchase or sale of Treasury securities deliverable under the terms of the options contracts involved, Treasury securities futures, options on Treasury securities futures, options on Treasury securities and opening and closing positions therein.

(b) Any corporate affiliate of a Specialist or Registered Options Trader in Treasury securities options shall maintain and preserve such books, records or other information as may be necessary to comply with this rule.

**Rule 1024D. Communication Links - Treasury Securities Options**

The Exchange will permit members to establish and maintain communication links with other members for the purpose of obtaining timely information on price movements in Treasury securities on which options are dealt in on the Exchange. Written notice of each such communication link shall be promptly filed with the Exchange. The Exchange may condition or terminate the use of any such communication link if the Exchange deems such action to be necessary or appropriate in the interest of maintaining a fair and orderly market or for the protection of investors.

**Rule 1025D. Doing Business With the Public - Treasury Securities Options**

(a) Approval of the accounts of customers shall be conducted in accordance with Rule 747 and, in the case of institutional options customers (i.e., customers that are not natural persons), a member organization shall seek to obtain the following information:

- (1) evidence of authority for the institution to engage in Treasury securities options transactions (corporate resolutions, trust documents, etc.);
- (2) written designation of individuals within the institution authorized to act for it in connection with Treasury securities options transactions; and
- (3) basic financial information concerning the institution.

(b) As a general matter, supervisory qualifications of a Registered Options Principal may be demonstrated only by successful completion of an examination prescribed by the Exchange (e.g. Series 4) for the purpose of demonstrating an adequate knowledge of Treasury securities options and the underlying Treasury securities. In exceptional circumstances and when good cause is shown, however, the Exchange may, upon written request by a member organization, accept as a

demonstration of equivalent knowledge other evidence of a Registered Options Principal's supervisory qualifications. Advanced age, physical infirmity or experience in fields ancillary to the investment banking or securities business will not individually of themselves constitute sufficient grounds to excuse a Registered Options Principal from the general requirement that supervisory qualifications be shown by successful completion of an appropriate examination.

(c) The conduct of Treasury securities option business at a branch office of a member organization may be supervised by any Registered Options Principal of the member organization.

(d) Any sales personnel of a member organization who solicit or accept customer orders with regard to options on Treasury securities shall be deemed qualified with regard to such options after such personnel successfully completed an examination prescribed by the Exchange for the purpose of demonstrating adequate knowledge of options and the underlying Treasury securities.]

### Nasdaq PSX Rules

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#### **Rule 3101. Trading Halts Due to Extraordinary Market Volatility**

This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2020. If the pilot is not either extended or approved permanently at the end of the pilot period, the prior version of this Rule shall be in effect.

(a) The Exchange shall halt trading in all stocks and shall not reopen for the time periods specified in this Rule if there is a Level 1, 2, or 3 Market Decline.

(i) For purposes of this Rule, a Market Decline means a decline in price of the S&P 500<sup>®</sup> Index between 9:30 a.m. EST and 4:00 p.m. EST on a trading day as compared to the closing price of the S&P 500<sup>®</sup> Index for the immediately preceding trading day. The Level 1, Level 2, and Level 3 Market Declines that will be applicable for the trading day will be publicly disseminated before 9:30 a.m. EST.

(ii) A "Level 1 Market Decline" means a Market Decline of 7%.

(iii) A "Level 2 Market Decline" means a Market Decline of 13%.

(iv) A "Level 3 Market Decline" means a Market Decline of 20%.

(b) Halts in Trading.

(i) If a Level 1 Market Decline or a Level 2 Market Decline occurs after 9:30 a.m. and up to and including 3:25 p.m. EST or in the case of an early scheduled close, 12:25 p.m. EST the Exchange shall halt trading in all stocks for 15 minutes after a Level 1 or Level 2 Market Decline. The Exchange shall halt trading based on a Level 1 or Level 2 Market



Decline only once per trading day. The Exchange will not halt trading if a Level 1 Market Decline or a Level 2 Market Decline occurs after 3:25 p.m. EST or in the case of an early scheduled close, 12:25 p.m. EST.

(ii) If a Level 3 Market Decline occurs at any time during the trading day, the Exchange shall halt trading in all stocks until the primary listing market opens the next trading day.

(c) Re-opening of Trading

(i) The re-opening of trading following a Level 1 or 2 trading halt shall follow procedures set forth in Rule 3100.

(ii) If the primary listing market halts trading in all stocks, the Exchange will halt trading in those stocks until trading has resumed on the primary listing market or notice has been received from the primary listing market that trading may resume. If the primary listing market does not reopen a security within 15 minutes following the end of the 15-minute halt period, the Exchange may resume trading in that security.

(d) Nothing in this Rule should be construed to limit the ability of the Exchange to otherwise halt, suspend, or pause the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.

**Rule 3102. Limitation of Exchange Liability and Reimbursement of Certain Expenses**

(a) The Exchange, including for purposes of PSX Rule 3102 its officers, directors and employees, shall not be liable for any damages sustained by a member, member organization, or person associated with any of the foregoing, arising out of or relating to the use or enjoyment by such person or entity of the facilities afforded by the Exchange to members for the conduct of their business.

(b) The cost to the Exchange of producing, pursuant to court order or other legal process, records relating to the business or affairs of a member, member organization, or person associated with any of the foregoing, may, in the discretion of the Exchange, be required to be paid to the Exchange by such person or entity, whether such production is required at the instance of such person or entity, or at the instance of any other party.

(c) In the event any action or proceeding is brought, or claim made, to impose liability on the Exchange for an alleged failure on its part to prevent or to require action by a member, member organization, or person associated with any of the foregoing, such person or entity may, in the discretion of the Exchange, be required to reimburse the Exchange for:

(1) all expenses, including counsel fees, incurred by the Exchange in connection with said action, proceeding, or claim, (2) the recovery, if any, adjudged against the Exchange upon a final determination that the Exchange was liable for the damage sustained, and (3) any payment made by the Exchange with the approval of the member, member organization, or person associated with any of the foregoing in connection with any settlement of any such action, proceeding, or claim; provided, however, that no member,

member organization, or person associated with any of the foregoing shall be required to reimburse the Exchange for any fine or any other civil penalty imposed on the Exchange by the Securities and Exchange Commission ("Commission") or any other governmental entity for a violation by the Exchange of any provision of the Act or of any Commission regulation, or where indemnification would otherwise be prohibited by law.

(2) Each member organization that physically conducts a business on the Exchange's trading floor is required, at its sole cost, to procure and maintain liability insurance that provides defense and indemnity coverage for itself, any person associated with it and the Exchange for any action or proceeding brought, or claim made, to impose liability upon such member organization, associated person or the Exchange resulting from, relating to, or arising out of the conduct of the member organization or associated person (hereinafter, "Insurance"). The Insurance shall further provide defense and indemnity coverage to the Exchange for the Exchange's sole, concurrent, or contributory negligence, or other wrongdoing, relating to or in connection with such claim. The Exchange shall be expressly named by endorsement as an Additional Insured under the Insurance. The Exchange's status and rights to coverage under the Insurance shall be the same rights of the named insured of the Insurance, including, without limitation, rights to the full policy limits. In addition:

(i) The limits for the Insurance shall be not less than \$1,000,000 without erosion by defense costs, but under no circumstance shall the Exchange be entitled to less than the full policy limits of such Insurance.

(ii) The Insurance shall state that it is primary to any insurance maintained by the Exchange.

(iii) Each member organization annually shall cause a certificate of insurance to be issued directly to the Exchange demonstrating that insurance compliant with this Rule has been procured and is maintained. Each member organization also shall furnish a copy of the Insurance to the Exchange for review upon the Exchange's request at any time.

(a) This section (2) is the only section of PSX Rule 3102 specifically limited to member organizations physically located on the Exchange's trading floor.

(d) In the event that a member, member organization, or person associated with any of the foregoing fails to remit any amount due the Exchange under this Rule or General 2, Section 3, such person shall be responsible for all costs of collection incurred by the Exchange, including counsel fees. This subsection does not apply to any objection or appeal by a member, member organization, or person associated with any of the foregoing considered by the Exchange or the Commission, or any appeal from a decision of the Commission.

(e) PSX Rule 3102(a), (b) & (c) shall apply to any action, proceeding, claim, or other legal process brought, made, or asserted on or after the date of the filing of this Rule with the

Commission. PSX Rule 3102(d) shall apply to any costs incurred by the Exchange upon approval of this Rule.

**Rule 3202. Application of Other Rules of the Exchange**

The following Rules of the Exchange shall be applicable to market participants trading on PSX.

The Limited Liability Company Agreement of the Exchange

The By-Laws of the Exchange

[Rule 1. Definitions

Rule 52. Fees, Dues and Other Charges

Rule 56. Effect of Suspension or Termination on Payment of Fees

Rule 57. Members' Contracts

Rule 58. Exchange Contracts

Rule 59. Deliveries through Registered Clearing Agencies

Rule 62. Disapproval of Business

Rule 63. Effect of Suspension or Termination

Rule 64. Office Vacated by Suspension or Termination

Rule 98. Reserved

Rule 103. Dealings on the Exchange - Securities

Rule 112. Bids and Offers - "When Issued"

Rule 128. Price and Execution Binding

Rule 133. Trading Halts Due to Extraordinary Market Volatility

Rule 274. Payment on Delivery - Collect on Delivery

Rule 279. Book-Entry Settlement

Rule 431. Ex-dividend, Ex-rights

Rule 432. Ex-warrants

Rule 433. Buyer Entitled to Dividend, etc.

Rule 434. Claims for Dividend, etc.

Rule 451. Taking or Supplying Securities Named in Order

Rule 452. Limitations on Members' Trading Because of Customers' Orders

Rule 453. Successive Transactions by Members

Rule 455. Short Sales

Rule 600. Registration

Rule 601. Office, Other Than Main Offices

Rule 602. Status Verification

Rule 603. Control of Offices

Rule 605. Advertisements, Market Letters, Research Reports and Sales Literature

Rule 607. Covered Sales Fee

Rule 610. Notification of Changes in Business Operations

Rule 623. Fingerprinting

Rule 625. Training

Rule 651. Exchange's Costs of Defending Legal Proceedings

Rule 652. Limitation of Exchange Liability and Reimbursement of Certain Expenses (paragraphs (b), (c), (d), and (e) only)

Rule 703. Financial Responsibility and Reporting

Rule 704. Assignment of Interest of Partner

Rule 705. Fidelity Bonds

Rule 707. Conduct Inconsistent with Just and Equitable Principles of Trade

Rule 708. Acts Detrimental to the Interest or Welfare of the Exchange

Rule 712. Independent Audit

Rule 721. Proper and Adequate Margin

Rule 722. Miscellaneous Securities Margin Accounts

Rule 723. Prohibition on Free-Riding in Cash Accounts

Rule 741. Customers' Securities

Rule 742. Restrictions on Pledge of Customers' Securities

Rule 745. Partial Payments

Rule 746. Diligence as to Accounts

Rule 747. Approval of Accounts

Rule 748. Supervision

Rule 749. Transactions for Employees of Exchange, etc.

Rule 750. Speculative Transactions for Employees of Certain Employers

Rule 751. Accounts of Employees of Member Organizations

Rule 752. Statements to Be Sent to Customers

Rule 753. Notwithstanding Power of Attorney

Rule 754. Discretionary Power as to Customers' Accounts

Rule 756. Reserved

Rule 757. Anti-Money Laundering Compliance Program

Rule 760. Maintenance, Retention and Furnishing of Books, Records and Other Information

Rule 761. Supervisory Procedures Relating to ITSFEA and to Prevention of Misuse of Material Nonpublic Information

Rule 762. Telemarketing

Rule 763. Recommendations to Customers (Suitability)

Rule 764. Best Execution and Interpositioning

Rule 771. Excessive Trading of Members

Rule 772 Trading for Joint Account

Rule 773. Participation in Joint Accounts

Rule 774. Disruptive Quoting and Trading Activity Prohibited

Rule 777. Guarantees Not Permitted

Rule 782. Manipulative Operations

Rule 783. Report of Financial Arrangements

Rule 784. Report of Options

Rule 785. Automated Submission of Trading Data

Rule 786. Periodic Reports

Rule 792. Reserved

Rule 794. Reserved

Rule 795. Reserved

Rule 796. Underwriting of Securities by Member Organizations

Rule 797. Reserved

Rule 798. Reserved

Rule 900.1. General Powers and Duties of Membership Department

Rule 900.2. Membership Applications

Rule 901. Denial of and Conditions to Membership

Rule 902. Reserved

Rule 903. Reserved

Rule 904. Reserved

Rule 905. Reserved

Rule 906. Reserved

Rule 907. Reserved

Rule 908. Rights and Privileges of A-1 Permits

Rule 909. Collection of Exchange Fees and Other Claims

Rule 910. Qualification as Member Organization

Rule 911 Member and Member Organization Participation

Rule 921. Qualification; Designation of Executive Representative

Rule 922. Certificate of Incorporation

Rule 924. Obligation of Members and Member Organizations to the Exchange

Rule 925. Inactive Nominees

Rule 950. Arbitration]

Sec. 44 FINRA Jurisdiction Over Arbitrations Against Exchange Members

[Rule 980. Regulatory Services Agreements

Rule 985. Affiliation and Ownership Restrictions

Rule 1094. Sponsored Participants

General 4, Section 1.1210. Registration Requirements

General 4, Section 1.1220. Registration Categories

General 4, Section 1.1230. Associated Persons Exempt from Registration

General 4, Section 1.1240. Continuing Education for Registered Persons

General 4, Section 1.1250. Electronic Filing Requirements for Uniform Forms]

Rule 8000. Investigations and Sanctions

Rule 8001. Regulation of the Exchange and its Member Organizations

Rule 8100. General Provisions

Rule 8110. Availability of Manual to Customers

Rule 8120. Definitions

Rule 8200. Investigations

Rule 8210. Provision of Information and Testimony and Inspection and Copying of Books

Rule 8211. Automated Submission of Trading Data

Rule 8212. Reserved

Rule 8213. Reserved

Rule 8220. Reserved

Rule 8300. Sanctions

Rule 8310. Sanctions for Violation of the Rules

Rule IM-8310-1. Effect of a Suspension, Revocation, Cancellation, or Bar

Rule IM-8310-2. Reserved

Rule IM-8310-3. Release of Disciplinary Complaints, Decisions and Other Information

Rule 8320. Payment of Fines, Other Monetary Sanctions, or Costs; Summary Action for Failure to Pay

Rule 8330. Costs of Proceedings

Rule 9000. Code of Procedure

Rule 9001. Regulatory Contract with FINRA

Rule 9100. Application and Purpose

Rule 9110. Application

Rule 9120. Definitions

Rule 9130. Service; Filing of Papers

Rule 9131. Service of Complaint and Document Initiating a Proceeding

Rule 9132. Service of Orders, Notices, and Decisions by Adjudicator

Rule 9133. Service of Papers Other Than Complaints, Orders, Notices, or Decisions



Rule 9134. Methods of, Procedures for Service

Rule 9135. Filing of Papers with Adjudicator: Procedure

Rule 9136. Filing of Papers: Form

Rule 9137. Filing of Papers: Signature Requirement and Effect

Rule 9138. Computation of Time

Rule 9140. Proceedings

Rule 9141. Appearance and Practice; Notice of Appearance

Rule 9142. Withdrawal by Attorney or Representative

Rule 9143. Ex Parte Communications

Rule 9144. Separation of Functions

Rule 9145. Rules of Evidence; Official Notice

Rule 9146. Motions

Rule 9147. Rulings On Procedural Matters

Rule 9148. Interlocutory Review

Rule 9150. Exclusion from Rule 9000 Series Proceeding

Rule 9160. Recusal or Disqualification

Rule 9200. Disciplinary Proceedings

Rule 9210. Complaint and Answer

Rule 9211. Authorization of Complaint

Rule 9212. Complaint Issuance - Requirements, Service, Amendment, Withdrawal, and Docketing

Rule 9213. Assignment of Hearing Officer and Appointment of Panelists to Hearing Panel or Extended Hearing Panel

Rule 9214. Consolidation or Severance of Disciplinary Proceedings

Rule 9215. Answer to Complaint

Rule 9216. Acceptance, Waiver, and Consent; Violation of Floor Procedure Advices; Violation of Order and Decorum Regulations

Rule IM-9216. Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2)

Rule 9220. Request for Hearing; Extensions of Time, Postponements, Adjournments

Rule 9221. Request for Hearing

Rule 9222. Extensions of Time, Postponements, and Adjournments

Rule 9230. Appointment of Hearing Panel, Extended Hearing Panel

Rule 9231. Appointment by the Chief Hearing Officer of Hearing Panel or Extended Hearing Panel or Replacement Hearing Officer

Rule 9232. Criteria for Selection of Panelists and Replacement Panelists

Rule 9233. Hearing Panel or Extended Hearing Panel: Recusal and Disqualification of Hearing Officers

Rule 9234. Hearing Panel or Extended Hearing Panel: Recusal and Disqualification of Panelists

Rule 9235. Hearing Officer Authority

Rule 9240. Pre-Hearing Conference and Submission

Rule 9241. Pre-Hearing Conference

Rule 9242. Pre-Hearing Submission

Rule 9250. Discovery

Rule 9251. Inspection and Copying of Documents in Possession of Staff

Rule 9252. Requests for Information

Rule 9253. Production of Witness Statements

Rule 9260. Hearing and Decision

Rule 9261. Evidence and Procedure in Hearing

Rule 9262. Testimony

Rule 9263. Evidence: Admissibility

Rule 9264. Motion for Summary Disposition

Rule 9265. Record of Hearing

Rule 9266. Proposed Findings of Fact, Conclusions of Law, and Post-Hearing Briefs

Rule 9267. Record; Supplemental Documents Attached to Record; Retention

Rule 9268. Decision of Hearing Panel or Extended Hearing Panel

Rule 9269. Default Decisions

Rule 9270. Settlement Procedure

Rule 9280. Contemptuous Conduct

Rule 9290. Expedited Disciplinary Proceedings

Rule 9291. Permanent Cease and Desist Orders

Rule 9300. Review of Disciplinary Proceeding by the Exchange Review Council and the Exchange Board; Application for Commission Review

Rule 9310. Appeal to or Review by the Exchange Review Council

Rule 9311. Appeal by Any Party; Cross-Appeal

Rule 9312. Review Proceeding Initiated By the Exchange Review Council

Rule 9313. Counsel to the Exchange Review Council

Rule 9320. Transmission of Record; Extensions of Time, Postponements, Adjournments

Rule 9321. Transmission of Record

Rule 9322. Extensions of Time, Postponements, Adjournments

Rule 9330. Appointment of Subcommittee or Extended Proceeding Committee; Disqualification and Recusal

Rule 9331. Appointment of Subcommittee or Extended Proceeding Committee

Rule 9332. Disqualification and Recusal

Rule 9340. Proceedings

Rule 9341. Oral Argument

Rule 9342. Failure to Appear at Oral Argument

Rule 9343. Disposition Without Oral Argument

Rule 9344. Failure to Participate Below; Abandonment of Appeal

Rule 9345. Subcommittee or Extended Proceeding Committee Recommended Decision to the Exchange Review Council

Rule 9346. Evidence in the Exchange Review Council Proceedings

Rule 9347. Filing of Papers in the Exchange Review Council Proceedings

Rule 9348. Powers of the Exchange Review Council on Review

Rule 9349. Exchange Review Council Formal Consideration; Decision

Rule 9350. Discretionary Review by Board

Rule 9351. Discretionary Review by the Exchange Board

Rule 9360. Effectiveness of Sanctions

Rule 9370. Application to Commission for Review

Rule 9400. Expedited Client Suspension Proceeding

Rule 9500. Other Proceedings

Rule 9510. Reserved

Rule 9520. Eligibility Proceedings

Rule 9521. Purpose and Definitions

Rule 9522. Initiation of Eligibility Proceeding; Member Regulation Consideration

Rule 9523. Acceptance of Member Regulation Recommendations and Supervisory Plans by Consent Pursuant to SEC Rule 19h-1

Rule 9524. Exchange Review Council Consideration

Rule 9525. Discretionary Review by the Exchange Board

Rule 9526. Expedited Review

Rule 9527. Application to Commission for Review

Rule 9530. Reserved

Rule 9531. Reserved

Rule 9532. Reserved

Rule 9533. Reserved

Rule 9534. Reserved

Rule 9535. Reserved

Rule 9536. Reserved

Rule 9537. Reserved

Rule 9550. Expedited Proceedings

Rule 9551. Reserved

Rule 9552. Failure to Provide Information or Keep Information Current

Rule 9553. Failure to Pay the Exchange Dues, Fees, and Other Charges

Rule 9554. Failure to Comply with an Arbitration Award or Related Settlement or an Order of Restitution or Settlement Providing for Restitution

Rule 9555. Failure to Meet the Eligibility or Qualification Standards or Prerequisites for Access to Services

Rule 9556. Failure to Comply with Temporary and Permanent Cease and Desist Orders

Rule 9557. Procedures for Regulating Activities Under Rule 703 Regarding a Member Organization Experiencing Financial or Operational Difficulties

Rule 9558. Summary Proceedings for Actions Authorized by Section 6(d)(3) of the Act

Rule 9559. Hearing Procedures for Expedited Proceedings Under the Rule 9550 Series

Rule 9600. Procedures for Exemptions

Rule 9610. Application

Rule 9620. Decision

Rule 9630. Appeal

Rule 9700. Reserved

Rule 9800. Temporary Cease and Desist Orders

Rule 9810. Initiation of Proceeding

Rule 9820. Appointment of Hearing Officer and Hearing Panel

Rule 9830. Hearing

Rule 9840. Issuance of Temporary Cease and Desist Order by Hearing Panel

Rule 9850. Review by Hearing Panel

Rule 9860. Violation of Temporary Cease and Desist Orders

Rule 9870. Application to Commission for Review

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**Rule 3400. Dealings on the Exchange—Securities**

Only such securities as shall be admitted to dealings on an "issued," "when issued," or "when distributed" basis shall be dealt in on the Exchange.

**Rule 3401. Bids and Offers—"When Issued"**

Bids and offers in securities admitted to dealings on a "when issued" basis may be made only "when issued," i.e., for delivery when issued as determined by the Exchange.

Bids and offers—"when distributed"

Bids and offers in securities admitted to dealings on a "when distributed" basis may be made only "when distributed," i.e., for delivery when distributed as determined by the Exchange.

**Rule 3402. Price of Execution Binding**

The price at which an order is executed on the Exchange shall be binding, notwithstanding the fact that an erroneous report in respect thereto may have been rendered.

**Rule 3403. Payment on Delivery—Collect on Delivery**

(a) In all deliveries of securities other than securities deliverable pursuant to the rules of a registered clearing agency, the party delivering shall have the right to require the purchase money to be paid upon delivery; if delivery is made by transfer, payment may be required at the time and place of transfer.

(b) When both the member organization and its agent and the customer and its agent are participants in a securities depository, the facilities of a securities depository shall be used for the confirmation, acknowledgment and book entry settlement of all depository eligible payment on delivery transactions.

(b) Transactions that are settled outside the United States shall be exempt from the provisions of paragraph (b) of this Rule.

(c) For the purposes of this Rule, a "securities depository" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act, that is registered with the Securities and Exchange Commission pursuant to Section 17A(b)(2) of the Act.

(d) For the purposes of this Rule, "depository eligible transactions" shall mean transactions in those securities for which confirmation, acknowledgment and book entry settlement can be performed through the facilities of a securities depository as defined in subparagraph (c).

**Rule 3404. Book-Entry Settlement**

(a) Each member and member organization shall use the facilities of a securities depository for the book-entry settlement of all transactions in depository eligible securities with another member or member organization or a member of a national securities exchange or a registered securities association.

(b) Each member or member organization shall not effect a delivery-versus payment or receipt-versus-payment transaction in a depository eligible security with a customer unless the transaction is settled by book-entry using the facilities of a securities depository.

(c) For purposes of this Rule, the term "securities depository" shall mean a securities depository registered as a clearing agency under Section 17A of the Exchange Act.

(d) The term "depository eligible securities" shall mean securities that (i) are part of an issue (securities identified by a single CUSIP number) of securities that is eligible for deposit at a securities depository and (ii) with respect to a particular transaction, are eligible for book-entry transfer at the depository at the time of settlement of the transaction.

(e) This Rule shall not apply to transactions that are settled outside of the United States.

(f) The requirements of this Rule shall supersede any inconsistent requirements under other Exchange Rules.

(g) This Rule shall not apply to any transaction where the securities to be delivered in settlement of the transaction are not on deposit at a securities depository and:

(i) if the transaction is for same-day settlement, the deliverer cannot by reasonable efforts deposit the securities in a securities depository prior to the cut-off time established by the depository for same-day crediting of deposited securities, or

(ii) the deliverer is unable to deposit the securities in a depository prior to a cut-off date established by the depository for that issue of securities.

**Rule 3405. Ex-dividend, Ex-rights**

Transactions in stocks (except those made for "cash") shall be ex-dividend or ex-rights as the case may be on the first business day preceding the record date fixed by the corporation or the date of the closing of transfer books therefor. Should such record date or such closing of transfer books occur upon a day other than a business day, such transactions shall be ex-dividend or ex-rights on the second preceding business day.

Transactions in stocks made for "cash" shall be ex-dividend or ex-rights on the business day following said record date or date of closing of transfer books.

The Exchange may, however, in any particular case, direct otherwise.

**Rule 3406. Ex-warrants**

Transactions in securities which have subscription warrants attached (except those made for "cash") shall be ex-warrants on the first business day preceding the date of expiration of the warrants, except that when the date of expiration occurs on a day other than a business day, said transactions shall be ex-warrants on the second business day preceding said date of expiration.

Transactions in securities made for "cash" shall be ex-warrants on the business day following the date of expiration of the warrants.

The Exchange may, however, in any particular case, direct otherwise.

**Rule 3407. Buyer Entitled to Dividend, etc.**

Unless otherwise agreed, the buyer shall be entitled to receive all dividends, rights and privileges, except voting power, accruing upon securities purchased which sell ex-dividend or ex-rights during the pendency of the contract.

**Rule 3408. Claims for Dividend, etc.**

When the owner of a registered security claims dividends, rights, etc., from the party in whose name the security is registered, the registered holder thereof may require from the claimant presentation of the certificate or bond, a written statement that he was the holder of the security at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate or bond evidence of the payment by cash or due-bill.

**Rule 3409. Taking or Supplying Securities Named in Order**



No member or member organization, who has accepted for execution, personally or through his member organization or a partner, officer or shareholder thereof, an order for the purchase of securities shall fill such order by selling such securities for any account in which he or his member organization or a partner, officer or shareholder thereof has a direct or indirect interest, or having so accepted an order for the sale of securities shall fill such order by buying such securities for such an account, except as follows:

Missing the market

(a) A member or member organization who neglects to execute an order may be compelled to take or supply for his own account or that of his member organization the securities named in the order;

"Crossing" for own account

(b) A member or member organization, acting for another member or member organization, may take the securities named in the order, provided (1) the price is justified by the condition of the market, and (2) the member or member organization who gave the order shall directly, or through a broker authorized to act for him, after prompt notification, accept the trade;

(c) A member or member organization, acting for another member or member organization, may supply the securities named in the order, provided (1) the price is justified by the condition of the market and (2) the member or member organization who gave the order shall directly, or through a broker authorized to act for him, after prompt notification, accept the trade;

(d) A member or member organization, acting as a broker, is permitted to report to his principal a transaction as made with himself when he has orders from two principals to buy and to sell the same security and not to give up his principals;

(e) A Market Maker in accordance with its duty to provide an orderly market in the securities in which it is registered may purchase or sell for principal account, such securities named in its customer's order provided that:

(i) the price is consistent with the market;

(ii) full disclosure to its customer is made on the confirmation of the transaction in a manner that defines the interest of the Market Maker.

(f) A member or member organization may purchase or sell for principal account the securities named in his customer's order provided that:

(i) the price is consistent with the market;

(ii) full disclosure of the interest of the member or member organization is made to his customer on the confirmation of the transaction.

**Rule 3410. Limitations on Members' Trading Because of Customers' Orders**

(a) Except as provided in this Rule, no member or member organization shall cause the entry of an order to buy (sell) on the Exchange any security listed or traded on the Exchange for any account in which such member or member organization or any associated person thereof is directly or indirectly interested (a "proprietary order"), if the person responsible for the entry of such order has knowledge of any particular unexecuted customer order to buy (sell) such security which could be executed at the same price.

(b) A member or member organization may enter a proprietary order while representing a customer order which could be executed at the same price, provided the customer's order is not for the account of an individual investor, and the customer has given express permission, including an understanding of the relative price and size-of allocated-execution reports, under the following conditions:

(1) the member or member organization is liquidating a position held in a proprietary facilitation account, and the customer order is for 10,000 shares or more;

(2) the member or member organization is creating a bona fide hedge ("hedge") and (i) the creation of the hedge, whether through one or more transactions, occurs so close in time to the completion of the transaction precipitating such hedge that the hedge is clearly related; (ii) the size of the hedge is commensurate with the risk it offsets; (iii) the risk to be offset is the result of a position acquired in the course of facilitating a customer order; and (iv) the customer order is for 10,000 shares or more;

(3) the member or member organization is modifying an existing hedge and (i) the size of the hedge, as modified, remains commensurate with the risk it offsets; (ii) the hedge was created to offset a position acquired in the course of facilitating a customer order; and (iii) the customer order is for 10,000 shares or more; or

(4) the member or member organization is engaging in bona fide arbitrage or risk arbitrage transaction, and recording such transactions in an account used solely to record arbitrage transactions (an "arbitrage account").

(c) The provisions of this Rule shall not apply to:

(1) any purchase or sale of any security in an amount of less than the unit of trading made by an odd-lot dealer to offset odd-lot orders of customers;

(2) any purchase or sale of any security upon terms for delivery other than those specified in such unexecuted market or limited price order;

(3) transactions by a member or member organization acting in the capacity of a specialist or market maker in a security listed or traded on the Exchange otherwise than on the Exchange; and

(4) transactions made to correct bona fide errors.

(d) A member or member organization or employee thereof responsible for entering proprietary orders shall be presumed to have knowledge of a particular customer order unless the member organization has implemented a reasonable system of internal policies and procedures to prevent the misuse of information about customer orders by those responsible for entering such proprietary orders.

(e) This Rule shall apply to any agency or proprietary transaction effected on the Exchange if such transaction ("Exchange transaction") is part of a group of related transactions that together have the effects prohibited by this Rule regardless whether (i) one or more of the other related transactions were effected on other market centers; or (ii) the Exchange transaction by itself had such effects.

(f) For purposes of paragraph (b) above, the term "account of an individual investor" shall mean an account covered by Section 11(a)(1)(E) of the Exchange Act. For purposes of paragraph (b)(1) above, the term "proprietary facilitation account" shall mean an account in which a member organization has a direct interest and which is used to record transactions whereby the member organization acquires positions in the course of facilitating customer orders. Only those positions which are recorded in a proprietary facilitation account may be liquidated as provided in paragraph (b)(1). For purposes of paragraph (b)(2) and (b)(4) above, the terms "bona fide hedge", "bona fide arbitrage" and "risk arbitrage" shall have the meaning ascribed to such terms in Securities Exchange Act Release No. 15533, January 29, 1979. All transactions effected pursuant to paragraph (b)(4) above must be recorded in an arbitrage account.

(g) For purposes of paragraph (b)(2) above, a hedge will be deemed to be "clearly related" if either the first or last transaction comprising the hedge is executed on the same trade date as the transaction that precipitates such hedge. A member shall mark all memoranda of orders to identify each transaction creating or modifying a hedge as permitted under this Rule.

#### **Rule 3411. Successive Transactions by Members**

No member, and no firm of which he is a partner, and no partner of such firm, shall execute or cause to be executed on the Exchange the purchase of any security at successively higher prices or the sale of any security at successively lower prices for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security, or for the purpose of making a price which does not reflect the true state of the market in such security.

#### **Rule 3412. Short Sales**

PSX shall not effect a sell order or sale of any security unless such sell order is effected in compliance with Regulation SHO promulgated under the Exchange Act.

#### **Rule 3413. Proper and Adequate Margin**

(a) No member organization shall effect a transaction or accept or carry an account for a customer, whether a member or non-member of the Exchange, without proper and adequate margin in accordance with the Margin Rules set forth in Options 6C, Section 3 and Regulation T.

(b) A member organization must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or New York Stock Exchange ("NYSE") as the same may be in effect and amended from time to time.

(1) Such election shall be promptly made in writing by a notice filed with the Exchange.

(2) Upon the filing of such election, a member organization shall be bound to comply with the margin rules of CBOE or NYSE, as applicable, as though said rules were part of the Exchange's Margin Rules.

(A) Upon the filing of such election, a member organization engaged in trading Treasury securities options on the Exchange shall, in respect of such trading, comply with the NYSE initial and maintenance margin rules or CBOE margin rules in Chapter XII (not CBOE Government security option margin rules in Chapter XXI). Provided, however, that short Treasury security options traded on the Exchange shall follow the margin percentage requirements for short equity options in NYSE margin rules or the margin percentage requirements for short equity options in CBOE Chapter XII; and provided that portfolio margin shall not be applicable to Treasury securities options.

(c) The margin requirement for any U.S. dollar-settled foreign currency put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be calculated as follows:

(1) The Exchange will review the five day price movements comparing the base currency against the underlying currency over the most recent three-year period for each foreign currency pair underlying options traded on the Exchange and will set margin levels which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(2) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.

(3) If the results of subsequent reviews show that the confidence level for any currency pair has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency pair will be monitored monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a 98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

(4) The Exchange will also review each currency pair for large price movements outside the margin level ("extreme outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency pair will be increased to a confidence level of 99%.

(d) The margin requirement for any Alpha Index put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be the same as the higher of the margin requirements applicable to options on the two individual components of the index.

#### **Rule 3414. Prohibition on Free-Riding in Cash Accounts**

No member organization shall permit a customer (other than a broker/dealer or a "designated account") to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No member organization shall permit a customer to make a practice of selling securities with them in a cash account which are to be received against payment from another broker/dealer where such securities were purchased and are not yet paid for. A member organization transferring an account which is subject to a Regulation T 90-day freeze to another member organization shall inform the receiving member organization of such 90-day freeze.

The provisions of Section 220.8(c) of Regulation T of the Board of Governors of the Federal Reserve System dictate the prohibitions and exceptions against customers' free riding. Member organizations may apply to the Exchange in writing for waiver of a 90-day freeze not exempted by Regulation T.

#### **Rule 3500. Financial Responsibility and Reporting**

(a) *Financial Responsibility Standards.*—Each member organization effecting securities transactions shall comply with the capital requirements set forth below:

- (i) each member organization subject to SEC rule 15c3-1 shall at all times comply with said rule and the notification provisions of SEC Rule 17a-11;
- (ii) each member organization exempt from SEC Rule 15c3-1 shall, at the time of its admission to the Exchange, have a minimum of \$25,000 in net liquid assets;
- (iii) each member organization or foreign currency options participant organization exempt from SEC Rule 15c3-1 and whose principal business is as a registered options trader on the Exchange, shall, subject to subparagraph (iv) below, at all times maintain a minimum of \$25,000 in net liquid assets;
- (iv) each member organization referred to in paragraph (iii) above shall at all times maintain positive net liquid assets and, in its clearing account(s), positive equity, provided that said organization has filed with the Exchange a letter of guarantee issued on its behalf by a clearing member organization of this Exchange which is also a clearing member of The Options Clearing Corporation. In said letter the clearing member organization guarantees the financial responsibilities of said organization for all

transactions and balances carried and cleared in the clearing account(s). Such letter of guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange by the clearing member organization. A revocation shall in no way relieve a clearing member organization of responsibility for transactions guaranteed prior to the effective date of such revocation.

(v) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC Rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.

(vi) Each member organization which maintains a joint back office ("JBO" arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System shall comply with the requirements below:

(A) Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Exchange Act and subject to SEC Rule 15c3-1(b)(i).

(B) Each JBO participant must meet and maintain a minimum account equity requirements of \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Options 6C, Section 3.

(C) Each JBO participant must meet and maintain the ownership standards.

(D) Each JBO participant must employ or have access to a qualified Series 27 principal.

(vii) Every clearing member organization carrying JBO accounts in accordance with Regulation T, shall comply with Section 220.7 of the Federal Reserve Board.

(A) Each member organization that carries JBO accounts shall not allow its (i) tentative net to fall below \$25 million or in the alternative its (ii) net capital \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of the gross haircuts calculated for all options market makers and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (ii) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

(B) Each member organization which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each JBO participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or

securities which shall be obtained within five business days. If funds or securities are sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Options 6C, Section 3.

(C) Each member organization which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3-1 for the positions maintained in such account.

(D) Each member organization which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.

(E) Each member organization which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing of its intention to carry such accounts.

If at any time a clearing member operating pursuant to paragraphs (vii)(A)(i) or (ii) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing member shall immediately notify the Exchange of such deficiency by telegraphic or facsimile notice; and be subject to the prohibition against withdrawal of equity capital set forth in SEC Rule 15c3-1(e) and to the prohibitions against reduction, prepayment and repayment of subordination agreements set forth in paragraph (b)(1) of the SEC Rule 15c3-1d, as if such broker or dealers' net capital were below the minimum standards specified by each of these paragraphs.

(F) Each member organization which maintains JBO accounts must develop risk analysis standards which are acceptable to the Exchange.

(viii) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC Rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.

(b) *Computation of Net Liquid Assets.*—Each member organization subject to this Rule shall compute net liquid assets in accordance with the following.

(i) Net Liquid Assets shall mean Total Assets less Total Liabilities less Non-Allowable Assets plus Exchange-approved Subordinated Liabilities less 2/3 of the value, as defined below. Unless provided otherwise in this rule, assets, liabilities and net worth shall be computed in accordance with generally accepted accounting principles.

(ii) Assets and Non-Allowable Assets shall have the same meaning as set forth in SEC Rule 15c3-1 except as stated in paragraph (b)(i) above;

(iii) Exchange-approved Subordinated Liabilities shall have the same meaning as those liabilities subject to Appendix D to SEC Rule 15c3-1 and shall be executed and maintained in the same manner as defined in said Rule and SEC Rule 17a-11.

(c) Reporting and Recordkeeping.—Member organizations shall make the following reports of their compliance with their pertinent financial responsibility rules:

(i) Organizations designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and subject to SEC Rules 15c3-1 and 17a-5 shall file those periodic and annual reports and annual certified audited statements as prescribed by SEC Rule 17a-5.

(ii) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and acting as a Market Maker and/or option specialist shall, on forms prescribed by the Exchange, file the following reports with the Exchange or its designee:

(A) As of the last business day of each month, a statement of assets, liabilities, net worth and a computation of net capital;

(B) As of the last business day of each calendar quarter, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said calendar quarter and, where applicable, changes in retained earnings, partnership capital and subordinated liabilities; and

(C) As of the last business day of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said year and where applicable, changes in retained earnings, partnership capital and subordinated liabilities and any other supplemental schedule(s) as may be required by the SEC.

(iii) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1, exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with subparagraph (a)(iii), shall, on forms prescribed by the Exchange, file those reports prescribed in subparagraph (c)(ii)(A), (B), and (C).

(iv) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1, exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with Rule 703(a)(iv), shall file only those reports prescribed in Rule subparagraph (c)(ii)(C) as well as those reports prescribed in subparagraph (c)(iv)(A).

(A) As of the last business day of the first half of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said first half, and where applicable, changes in retained earnings, partnership capital and subordinated liabilities.

(v) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and acting as a broker on the Exchange shall, on forms prescribed by the Exchange, file those reports described in subparagraph (c)(ii)(A), (B), and (C).



(vi) Each member organization whose principal business is acting as a broker on PSX, who is not self-clearing and for which the Exchange is the DEA must establish and maintain an account with a clearing firm for the sole purposes of carrying positions resulting from errors made in the course of its brokerage business. Such an account for options transactions must be maintained with an entity which is also a clearing member of The Options Clearing Corporation. A broker on PSX, prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the broker on PSX with respect to all orders entrusted on PSX with such broker on PSX as well as all transactions and balances carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing member organization of its intent to no longer clear or carry transactions for such broker on PSX. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

(d) The Exchange may at any time or from time to time with respect to a particular member organization, prescribe more frequent filing of reports or greater net liquid asset requirements than those prescribed under this Rule, including more stringent treatment of items in computing net liquid assets.

(e) Due Dates; Fees for Late Filing.—Each financial report required by paragraph (c) shall be filed with the Exchange within seventeen business days after the conclusion of the reporting period. Reports shall be deemed to have been filed on the date which they have been postmarked; if such reports have not been postmarked, they shall be deemed to have been filed when received by the Exchange. A request for an extension of time to file any such report must be received by the Exchange no later than the business day before the due date for the required report. Unless such an extension has been granted, a member organization shall pay a late fee as set forth below for each week or any part thereof that the report has not been filed.

(i) \$100 per week for the first late filing in a twelve-month period;

(ii) \$300 per week for the second late filing during a twelve-month period; and

(iii) \$1,000 per week for the third late filing, and subsequent late filings, during a twelve-month period.

The twelve-month period is calculated based on report due dates. Delinquencies will be calculated based on a running twelve-month period.

(f) Filings with The Exchange.—All letters, reports, extension requests and other items required to be filed with the Exchange by any provision of this Rule shall be filed with the Exchange or its designee.

(g) JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Options 6C, Section 3 or under the comparable rules of another self-regulatory organization.

(h) Organizations designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and subject to SEC Rules 15c3-1 and 17a-5 or exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with paragraph (a), must file electronically with the Exchange or its designee, utilizing such method as required by the Exchange, FOCUS Reports and filings required by SEC Rule 17a-5(a) and (b) and paragraphs 703(c), (d) and (f). Exchange members are still obligated to submit such filings to the Securities and Exchange Commission as specified in the Exchange Act ("Act"), as amended, and the rules promulgated under the Act.

### **Rule 3501. Independent Audit**

Each member organization doing any business with the public shall at least once each calendar year cause to be made an audit of its affairs, conducted in accordance with applicable audit requirements of the Securities and Exchange Commission and such other requirements as deemed appropriate by the Exchange, by independent public accountants and shall have such accountants prepare an answer to the financial questionnaire of the Exchange based upon such audit.

Pursuant to Rule 17a-5(d), promulgated under the Exchange Act, all broker-dealers are required to file annually audited financial statements ("Annual Audits") with their Designated Examining Authority and the SEC, no more than 60 days after the date of the year end financial statements. A member organization unable to meet the filing deadline for its Annual Audit as a result of exceptional circumstances may request an extension of time, in writing, prior to the filing due date. Annual Audits not received by the Exchange by the due date, or revised due date if an extension has been granted, will be subject to a late fee as set forth below for each week or any part thereof that the Annual Audit has not been filed, as calculated based on the due date or revised due date for filing the Annual Audit. (Implemented on a running three-year basis.)

(i) \$100 per week for the first late filing in a three-year period.

(ii) \$300 per week for the second late filing in a three-year period.

(iii) \$1,000 per week for the third late filing in a three-year period.

**••• Supplementary Material: -----**

The Exchange has adopted the following directive:

### **Annual audit**

While the new rule eliminates the requirement for a surprise audit it is still required that an audit be conducted. The annual audit may be done on a surprise basis but the rule also allows for the audit to be conducted

on a calendar year basis, fiscal year basis or any other regular basis approved by the Exchange.

The agreement between the member organization and the accountant, required to be filed with the Membership Department under directive of the Exchange, shall read substantially as follows, although additional provisions, not inconsistent with the following, may also be included in the agreement:

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**••• Supplementary Material:** -----

SAMPLE COPY

**(Not for filing)**

**To be typed on Accountants Letterhead**

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(Name of Member Organization)

Gentlemen:

You have selected us (me) to make an audit of your affairs and to prepare an answer to the financial questionnaire required to be filed with Nasdaq PHLX LLC based upon such audit.

We (I) Agree

- (1) To make an audit of the affairs of your firm in accordance with the audit regulations of the Securities and Exchange Commission and Nasdaq PHLX LLC. Such audit shall be conducted as of , 20. In the event the audit is to be conducted on a "surprise" basis, do not fill in date called for above and state that "the audit will be made without prior notice to your firm."
- (2) to notify promptly the Membership Department that the audit has been commenced;
- (3) to prepare an answer to the financial questionnaire required to be filed with the Membership Department, based upon such audit;
- (4) to submit to the Membership Department a copy of such answer accompanied by an attestation, in the prescribed form, signed by the general partners (officers) of the member firm (corporation) and ourselves (myself);

(5) to submit to the Membership Department a copy of our (my) report in accordance with the special instructions which appear in the financial questionnaire.

Yours very truly,

-----

Signature of Independent

Public Accountant

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**Rule 3502. Automated Submission of Trading Data**

A member or member organization shall submit such of the following trade data elements specified below in such automated format as may be prescribed by the Exchange from time to time, in regard to such transaction or transactions as may be subject of a particular request for information made by the Exchange:

(a) If the transaction was a proprietary transaction effected or caused to be effected by the member or member organization for any account in which such member or member organization, or any member, allied member, approved person, partner, officer, director, or employee thereof, is directly or indirectly interested, such member or member organization shall submit or cause to be submitted the following information:

(1) Clearing house number, or alpha symbol as used by the member or the member organization submitting the data;

(2) Clearing house number(s), or alpha symbol(s) as may be used from time to time, of the member(s) or member organization(s) on the opposite side of the transaction;

(3) Identifying symbol assigned to the security;

(4) Date transaction was executed;

(5) Number of shares, or quantity of bonds or options contracts for each specific transaction and whether each transaction was a purchase, sale, short sale, and if an options contract whether open long or short or close long or short;

(6) Transaction price;

(7) Account number; and

(8) Market center where transaction was executed.

(b) If the transaction was effected or caused to be effected by the member or member organization for any customer account, such member organization shall submit or cause to be submitted the following information:

(1) Data elements (1) through (8) as contained in paragraph (a) above; and

(2) Customer name, address(es), branch office number, registered representative number, whether order was solicited or unsolicited, date account opened and employer name and the tax identification number(s).

(3) If transaction was effected from a member broker-dealer customer, whether the broker-dealer was acting as principal or agent on the transaction or transactions that are the subject of the Exchange's request.

(c) In addition to the above trade data elements, a member or member organization shall submit such other information in such automated format as may be prescribed by the Exchange, as may from time to time be required.

(d) The Exchange may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (a) and (b) above be submitted to the Exchange in an automated format.

### **Rule 3503. Conduct Inconsistent with Just and Equitable Principles of Trade**

(a) A member, member organization, or person associated with or employed by a member or member organization shall not engage in conduct inconsistent with just and equitable principles of trade.

(b) Without limiting the generality of this Rule, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage, directly, or indirectly, in any conduct that threatens, harasses, intimidates, constitutes a "refusal to deal," or retaliates against any member, member organization, person associated with or employed by a member or member organization, or other market participant because such member, member organization, person associated with or employed by a member or member organization, or other market participant has: (i) made a proposal to any exchange or other market to list or trade any option class; (ii) advocated or proposed to list or trade an option class on any exchange or other market; (iii) commenced making a market in or trading any option class on any exchange or other market; (iv) sought to increase the capacity of any options exchange or the options industry to disseminate quote or trade data; (v) sought to introduce new option products; or (vi) acted, or sought to act, competitively.

(c) Without limiting the generality of this Rule, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage in conduct that has the intent or effect of unbundling equity securities orders for execution for the primary purpose of maximizing a monetary or in-kind amount received by the member, member organization, or person associated with or employed by a member or member organization as a result of the execution of such

equity securities orders. For purposes of this section, "monetary or in-kind amounts" shall be defined to include commissions, gratuities, payments for or rebate of fees resulting from the entry of such equity securities orders, or any similar payments of value to the member, member organization, or person associated with or employed by a member or member organization.

**Rule 3504. Acts Detrimental to the Interest or Welfare of the Exchange**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in acts detrimental to the interest or welfare of the Exchange.

**Supplementary Material**

.01 Acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, the following:

- (a) conviction or guilty plea to any felony charge or any securities or fraud-related criminal misconduct;
- (b) use or attempted use of unauthorized assistance while taking any securities industry or Exchange-related qualification examination;
- (c) failure to make a good faith effort to pay any fees, dues, fines or other monies due and owing to the Exchange;
- (d) destruction or misappropriation of Exchange or member property;

**Rule 3505. Restrictions on Pledge of Customers' Securities**

(a) No agreement between a member organization and a customer authorizing the member organization to pledge securities carried for the account of the customer either alone or with other securities, either for the amount due thereon or for a greater amount, or to lend such securities, shall justify the member organization in pledging or lending more of such securities than is fair and reasonable in view of the indebtedness of said customer to said member organization, except as provided in paragraph (d) of this Rule.

Agreements for use of customers' securities

(b) No member organization shall lend, either to itself as broker or to others, securities held on margin for a customer and which may be pledged or loaned under paragraph (a) hereof, unless such member organization shall first have obtained a separate written authorization from such customer permitting the lending of such securities by such member organization.

Restrictions on delivery of customers' securities

(c) No general agreement between a member organization and a customer shall justify the member organization in delivering securities carried for the customer on sales made by the

member organization for any account in which such member organization or any partner thereof or stockholder therein is directly or indirectly interested.

Free or excess margin securities

(d) No securities held by a member organization for the account of a customer, whether free or representing excess margin, may be loaned to itself as broker, or to others, or delivered on sales made by the member organization for any account in which the organization or any partner or stockholder has a direct or indirect interest unless a specific written agreement designating the particular securities to be loaned is first obtained from the customer.

**Rule 3506. Anti-Money Laundering Compliance Program**

Each member and member organization for which the Exchange is the Designated Examining Authority, shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et. seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member's anti-money laundering program must be approved, in writing, by a representative of its senior management staff. The anti-money laundering programs required by this Rule shall include, at a minimum a requirement to:

- (1) Establish and implement policies, procedures and controls that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;
- (2) Establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;
- (3) Provide for independent testing for compliance to be conducted by member personnel or by a qualified outside party;
- (4) Designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and controls of the program; and
- (5) Provide ongoing training for appropriate personnel.

**Rule 3507. Telemarketing**

(a) No member or person associated with a member shall:

(1) make outbound telephone calls to the residence of any person for the purpose of soliciting the purchase of securities or related services at any time other than between 8:00 a.m. and 9:00 p.m. local time at the called person's location, without the prior consent of the person; or

(2) make an outbound telephone call to any person for the purpose of soliciting the purchase of securities or related services without disclosing promptly and in a clear and conspicuous manner to the called person the following information:

- (i) the identity of the caller and the firm; and
- (ii) the telephone number or address at which the caller may be contacted; and
- (iii) that the purpose of the call is to solicit the purchase of securities or related services.

(3) The prohibitions of paragraphs (1) and (2) shall not apply to telephone calls by any person associated with a member organization or another associated person acting at the direction of such person for the purpose of maintaining and servicing the accounts of existing customers of the member organization under the control of or assigned to such associated person:

- (i) to an existing customer who, within the preceding twelve months, has affected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or the deposit, was under the control of or assigned to, such associated person:
- (ii) to an existing customer who previously has effected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or deposit, was under the control of or assigned to such associated person, provided that such customer's account has earned interest or dividend income during the preceding twelve months, or
- (iii) to a broker or dealer.

For the purposes of paragraph (3), the term "existing customer" means a customer for whom the member organization, or a clearing member broker or dealer on behalf of such member organization, carries an account. The scope of this rule is limited to the telemarketing calls described herein; the terms of this rule shall not otherwise expressly or by implication impose on members any additional requirements with respect to the relationship between a member and a customer or between a person associated with a member organization and a customer.

(b) Each member organization shall make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations from such member organization or its associated persons.

(c) No member organization or person associated with such member organization shall obtain from a customer or submit for payment a check, draft or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account, without that person's express written authorization, which may include the customer's signature on the negotiable instrument. Such written authorization shall be preserved by the member organization for a period of not less than three years. This provision shall not, however, require maintenance of copies of negotiable instruments signed by customers.

### **Rule 3600. Regulatory Services Agreements**



The Board may authorize any officer, on behalf of the Exchange, subject to the approval of the Board, to enter into one or more agreements with another self-regulatory organization to provide regulatory services to the Exchange to assist the Exchange in discharging its obligations under Section 6 and Section 19(g) of the Exchange Act. Any action taken by another self-regulatory organization, or its employees or authorized agents, acting on behalf of the Exchange pursuant to a regulatory services agreement shall be deemed to be an action taken by the Exchange; provided, however, that nothing in this provision shall affect the oversight of such other self-regulatory organization by the Securities and Exchange Commission. Notwithstanding the fact that the Exchange may enter into one or more regulatory services agreements, the Exchange shall retain ultimate legal responsibility for, and control of, its self-regulatory responsibilities, and any such regulatory services agreement shall so provide.

\* \* \* \* \*

## Minor Rule Violations

### Options Minor Rule Violations

#### [A. SPECIALISTS

##### A-1 Specialist as ROT

Specialists who are also ROTs shall not have their Specialist activity included in the calculation for required trading as an ROT.

#### FINE SCHEDULE

Fine not applicable

## F. MISCELLANEOUS

### F-1 Option Quote Parameters

When bidding and/or offering in equity option or index option issues, the following parameters should be utilized on the opening:

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask

differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening).

The bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment.

#### Foreign Currency Options

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized on the opening:

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening).

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

#### Relief

Relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.

#### Batching

The Exchange may aggregate individual violations and treat such violations as a single offense.

#### FINE SCHEDULE (Implemented on a one-year running calendar basis)

1st Occurrence	Warning letter
2nd Occurrence	Warning letter
3rd Occurrence	Warning letter
4th Occurrence	\$250.00

5th Occurrence	\$500.00
6th Occurrence	\$1,000.00
7th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **F-2 Failure to Comply with an Exchange Inquiry**

Each member, member organization or associated person is required to promptly comply with any request of information made by the Exchange in connection with any regulatory inquiry, investigation or examination relating to the Exchange's disciplinary jurisdiction or regulatory obligations.

For the purposes of this Advice, information received within ten (10) business days from the date of the original request shall be deemed to meet the requirement of prompt compliance, except, for purposes of Exchange requests, information received within two business days from the date of the original request shall be deemed to meet the requirement of prompt compliance.

The Exchange may under extenuating circumstances grant extensions to allow for responses beyond the allotted requirement. Requests for extensions must be submitted in writing to the appropriate department, prior to the due date of the outstanding request. Each additional request for information not furnished within the allotted time periods may be considered a separate occurrence for purposes of the fine schedule below.

#### **FINE SCHEDULE (Implemented on a three-year running calendar basis)**

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **F-3 Affiliations**

(i) Affiliations must be filed in writing with the Exchange's Membership Department as provided by Exchange Rule 908.

#### **FINE SCHEDULE (Implemented on a three-year running calendar basis)**

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-4 Unusual Market Conditions**

In the interest of maintaining a fair and orderly market under unusual market conditions for one or more classes of options, an Options Exchange Official may determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote rule in a manner that accurately reflects the current market on the Exchange. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist.

## FINE SCHEDULE

Fine not applicable

**F-5 Supervisory Procedures Relating to ITSFEA**

(a) Member organizations must maintain written supervisory procedures as required by the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA). Such procedures must be reasonably designed to prevent the misuse of material, non-public information by employees.

(b) In addition to the requirements under ITSFEA, the Exchange herein institutes basic minimum standards for incorporation into ITSFEA-related written supervisory procedures for all member organizations. The requirements enumerated below must be included and, together with all related additional written supervisory procedures maintained in accordance with paragraph (a) above, must receive approval by the Exchange. These requirements are not intended to supersede, or be presumed to fulfill, the requirements of ITSFEA. These requirements are instead set forth as separate requirements of the Exchange.

In the instance where a member organization is subject to written supervisory procedures relating to ITSFEA, imposed by another self regulatory organization which is its designated examining authority ("DEA"), the Exchange requirements set forth in paragraph (b) of this Advice will not apply.

1.) Each new employee of the organization shall be furnished with a copy of the most current version of the Exchange's "Notice of Insider Trading" (Notice), or a document substantially similar to the Notice approved by the DEA for use in this connection. Within ten business days from the first date of employment with the Unit, each new employee must sign and return the Notice to the employer. By his signature on the Notice, the employee attests to having carefully read the Notice and agrees to appropriately supply the employer Firm with all trading accounts for which such person maintains a beneficial interest, including all personal and household accounts of the employee. Also, by his signature on the Notice, each new employee ensures that delivery of all related account statements will be made directly from the Firm(s) maintaining the account to the employer.

2.) Each Unit must complete the Exchange's "ITSFEA Accounts List," comprising all accounts submitted in connection with paragraph (1) above and all proprietary accounts of the Unit.

Updates to the list must be made within one month of any change and each completed version of the list must be maintained for no less than three years by the Unit.

3.) Each month a supervisory person of the Unit is required to make a reasonable review of all activities from the account statements of those accounts reflected on the ITSFEA Accounts List with a view toward identifying the possible misuse of material non-public information. A report must be made promptly to the Exchange's Regulatory staff in the event that any such unusual profits are so identified.

Failure to properly maintain the ITSFEA Accounts List, or to conduct related reviews required by this Advice, may result in the issuance of fines in accordance with the schedule below.

**FINE SCHEDULE** (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-6 Minor Infractions of Position/Exercise Limits and Hedge Exemptions**

(a) Minor violations of the Exchange's position and exercise limits (Exchange Rule 1001 - Position Limits, Exchange Rule 1002 - Exercise Limits, Exchange Rule 1001A - Position Limits, and Exchange Rule 1002A - Exercise Limits) which do not exceed such limits by more than 5% may result in the issuance of a fine in accordance with section (a) of the fine schedule below.

In addition, when a position limit exemption for a specific period has lapsed without the position either being brought into compliance or a new exemption granted, a fine in accordance with section (a) of the fine schedule below may be issued.

Other violations of the position and exercise limit are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

(b) Automatic hedge exemptions are available for stock option positions. Specifically, each option of a stock option position hedged by 100 shares of stock or securities convertible into such stock, is exempted from having to be included in the aggregation count for the purposes of the position and exercise limits. The exemption is limited, however, to an amount of option contracts no greater than twice the standard limit of the respective option. Permissible hedges are provided below:

long stock, short call

long stock, long put

short stock, long call

short stock, short put

(i) When utilizing a hedge exemption, a report of the position must be received by the Exchange's Regulatory staff in a manner prescribed by the Exchange no later than the close of business following the day the exemption is availed upon. Failure to provide the Exchange with a hedge exemption form as required may result in the issuance of a fine in accordance with section (b)(i) of the fine schedule below.

(ii) Hedge exemptions apply for only as long as the hedge is maintained. In any instance where the stock side to a hedge exemption is decreased, the appropriate number of options must be liquidated prior to or simultaneous with the corresponding decrease in any stock position utilized to provide an automatic option hedge exemption. Failure to appropriately reduce the respective option position following such a decrease in the stock position such that the position limit does not exceed the limit by more than 5% may result in the issuance of a fine in accordance with section (b)(ii) of the fine schedule below. Instances where the resulting position exceeds established limits by more than 5% are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4Th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

(b)

(i)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00

	4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement
(ii)	1st Occurrence	\$500.00
	2nd Occurrence	\$1,000.00
	3rd Occurrence	\$2,000.00
	4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **F-7 Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts**

A member organization of this Exchange which is also a clearing member of OCC carrying accounts for Specialists and ROTs/market makers is required to take reasonable steps to ensure that only those positions in Exchange listed options which are eligible for exempt credit treatment are carried in the market functions account. Any transaction on another Exchange in an option that is also listed on the Exchange is covered by this Advice. Reasonable steps include the adoption and implementation of procedures designed to detect any pattern of activity in contravention of this Advice.

#### **FINE SCHEDULE (Implemented on a three-year running calendar basis)**

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **FINE SCHEDULE**

Fine not applicable

### **F-8 Options Exchange Official Rulings**

Options Exchange Officials are empowered to render rulings on the trading floor to resolve trading disputes occurring on and respecting activities on the trading floor. All rulings rendered by Options Exchange Officials are effective immediately and must be complied with promptly. Failure to promptly comply with a ruling concerning a trading dispute may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other rulings issued pursuant to Order and Decorum Regulations or Floor Procedure Advices and not concerning a trading dispute may result in an additional violation. Options Exchange Officials need not render decisions in any instance where the request for a ruling was not made within a reasonable period of time. An Options Exchange Official should not render a decision or authorize a citation where such Options Exchange Official was involved in or affected by the dispute, as well as in any situation where the Options Exchange Official is not able to objectively and fairly render a decision.

Options Exchange Officials shall endeavor to be prompt in rendering decisions. However, in any instance where an Options Exchange Official has determined that the benefits of further discovery as to the facts and circumstances of any matter under review outweigh the monetary risks of a delayed ruling, the Options Exchange Official may determine to delay rendering the ruling until such time as that further discovery is completed. In issuing decisions for the resolution of trading disputes, Options Exchange Officials shall institute the course of action deemed by the ruling Options Exchange Official to be more fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. However, an Options Exchange Official may nullify a transaction if they determine the transaction to have been in violation of Rule 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders) or Options 8, Section 24 (Bids And Offers-Premium).

Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of an Options Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

All Options Exchange Official rulings concerning the adjustment and nullification of transactions are reviewable by the Exchange Review Council.



- (i) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings concerning the nullification or adjustment of transactions may be sustained, overturned or modified by the Exchange Review Council. In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).
- (ii) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to Rule 124(d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder.
- (iii) A member or member organization seeking the Exchange Review Council review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council.
- (iv) Decisions of the Exchange Review Council concerning the review of Options Exchange Official rulings relating to the nullification or adjustment of transactions shall be final and may not be appealed to the Exchange's Board of Directors.
- (v) Failure to promptly comply with an Options Exchange Official or Exchange Review Council decision under this Rule may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

#### FINE SCHEDULE

\$250.00

#### **F-9 Failure to Provide Notification of Changes in Business Operations**

Any member organization for which the Exchange is the Designated Examining Authority ("DEA") shall provide prior written notification to the Exchange or its designee of any change in the business operations of such member organization which would cause the member organization to be subject to additional or modified net capital requirements, examination schedules or other registration, examination or regulatory requirements.

For the purposes of this Advice, the appropriate time frame for notification is at least 10 business days prior to the change in business operations.

FINE SCHEDULE (Implemented on a three year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **F-10 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD**

Any member organization that is required to file Form U4, Form U5 or Form BD pursuant to Exchange Rules or the Securities Exchange Act of 1934 and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Member organizations and participant organizations shall amend Form U4, Form U5 or Form BD not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department or Department of Enforcement

#### **F-11 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts**

Any member who fails to submit to the Exchange in a timely manner pursuant to Rule 1042, or an exercise instruction relating to the exercise or nonexercise of a noncash-settled equity option shall be subject to the following fines:

FINE SCHEDULE (Implemented on a running 24 month period)

	Individual	Member Organization
1st Occurrence	\$500.00	\$1,000.00
2nd Occurrence	\$1,000.00	\$2,500.00
Subsequent Occurrence And Thereafter	\$2,500.00	\$5,000.00

### **G. INDICES**

#### **G-1 Index Option Exercise Advices**

In accordance with the provisions of Exchange Rule 1042A, all Specialists, ROTs, customers and Firms must complete an exercise advice when exercising any American style index option contract(s) and exercise the amount of option contracts indicated on the exercise advice.

Specialists, ROTs, customers and Firms must time stamp and submit the completed exercise advice to Exchange staff at the Surveillance Post or in the trading crowd no later than five minutes after the close of trading on the day of the exercise with respect to any American style index option traded on the Exchange. Exercise advices for index options are not required on (a) the business day prior to expiration in series expiring on a day other than a business day or (b) the expiration day in series expiring on a business day.

Those Firms utilizing the electronic systems of the Options Clearing Corporation to meet the time requirements of this Advice must transmit to the Options Clearing Corporation index exercise instructions according to the time frames described above.

The fine schedule below provides sanctions for infractions of the index option exercise advice procedures which are minor in nature. Any violation of the procedure which has been deemed serious by the Exchange will be referred directly to the Exchange's Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement where stronger sanctions may result.

**FINE SCHEDULE (Implemented on a two-year running calendar basis)**

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement]

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## **Nasdaq PHLX LLC Rules**

### **General 1 General Provisions**

#### **Section 1. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Directors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

(1) The term "Act", "Exchange Act" or "Securities Exchange Act" mean the Exchange Act, as amended.

(2) The term "associated person" or "person associated with a member organization" mean any partner, officer, director, or branch manager of an Exchange member organization or applicant (or person occupying a similar status or performing similar functions), or any person directly or indirectly controlling, controlled by, or under common control with such member

organization or applicant, or any employee of such member organization or applicant, except that any person associated with a member organization or applicant whose functions are solely clerical or ministerial shall not be included in the meaning of such term for purposes of the Exchange Rules. For purposes of the 8000 and 9000 Rule Series, the term "person associated with a member organization" or "associated person" shall have the same meaning as the term "persons associated with a member" or "associated person of a member," respectively, as provided in Section 3(a)(21) of the Exchange Act.

(3) The term "**Board**" or "**Board of Directors**" mean the Board of Directors of Nasdaq PHLX LLC.

(4) The term "**By-Laws**" means the By-Laws of Nasdaq PHLX LLC.

(5) The term "**clearing firm**" means a member organization that meets the requirements of Rule 165(c).

(6) The term "**Code of Procedure**" means the procedural rules contained in the Rule 9000 Series.

(7) The terms "**Commission**" or "**SEC**" mean the United States Securities and Exchange Commission.

(8) The term "**delivery**" means the delivery of securities on Exchange contracts, unless otherwise stated.

(9) The term "**Director**" means the Persons elected or appointed to the Board of Directors from time to time in accordance with the LLC Agreement and these By-Laws, in their capacity as managers of the Exchange.

(10) The term "**Exchange**" means Nasdaq PHLX LLC.

(11) The term "**Exchange Review Council**" means the committee authorized and directed to act for the Board of Directors of the Exchange in a manner consistent with the Exchange Rules with respect to (1) an appeal or review of a disciplinary proceeding; (2) a statutory disqualification decision; (3) a review of a membership proceeding; (4) a review of an offer of settlement, a letter of acceptance, waiver, and consent, and a minor rule violation plan letter; (5) the exercise of exemptive authority; (6) an appeal of proceedings involving Exchange Rules Options 8, Section 35, 1092, 3219, 3220, and 3312; and (7) such other proceedings or actions authorized by the Exchange Rules.

(12) The term "**Executive Representative**" means the executive representative who shall represent, vote, and act for the Exchange Member in all the affairs of the Exchange; provided, however, that other representatives of a Exchange Member may also serve on the Exchange Board or committees of the Exchange or otherwise take part in the affairs of the Exchange.

(13) The term "**FINRA**" means the Financial Industry Regulatory Authority, Inc. and its affiliates.

(14) The term "**Good Standing**" means a member organization who is not in violation of any of its agreements with the Exchange or any of the provisions of the Rules or By-Laws of the Exchange, and who has maintained all of the conditions for approval as a member organization.

(15) The term "**investment banking or securities business**" means the business, carried on by a broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer, or of purchasing and selling securities upon the order and for the account of others.

(16) The term "**member**" means a permit holder which has not been terminated in accordance with the By-Laws and these Rules of the Exchange. A member is a natural person and must be a person associated with a member organization. Any references in the rules of the Exchange to the rights or obligations of an associated person or person associated with a member organization also includes a member.

(17) The term "**member organization**" means a corporation, partnership (general or limited), limited liability partnership, limited liability company, business trust or similar organization, transacting business as a broker or a dealer in securities and which has the status of a member organization by virtue of (i) admission to membership given to it by the Membership Department pursuant to the provisions of General 3, Sections 5 and 10 or the By-Laws or (ii) the transitional rules adopted by the Exchange pursuant to Section 6-4 of the By-Laws. References herein to officer or partner, when used in the context of a member organization, shall include any person holding a similar position in any organization other than a corporation or partnership that has the status of a member organization.

(18) The "**Membership Department**" means the Nasdaq PHLX Membership Department located within the Exchange.

(19) The term "**Nasdaq Merger**" means the merger of a wholly owned subsidiary of Nasdaq, Inc., a Delaware corporation, with and into the Exchange, with the Exchange as the surviving corporation, in connection with the acquisition of the Exchange by Nasdaq, Inc.

(20) The term "**NMS Stock**" is defined within Rule 600(b)(47) of Regulation NMS.

(21) The term "**NSCC**" means the National Securities Clearing Corporation.

(22) The term "**non-member**" includes, with respect to individuals, any person who is not a member and, with respect to entities, any organization that is not a member organization.

(23) The term "**permit**" means a permit of any class, series or kind established from time to time by the Board of Directors and denominated as such.

(24) The term "**person**" means a natural person, corporation, partnership (general or limited), limited liability company, association, joint stock company, trust, trustee of a trust fund, or any organized group of persons whether incorporated or not and a government or agency or political subdivision thereof.

(25) The term "**Phlx**" means Nasdaq PHLX LLC.

(26) The terms "**Protected Bid, Offer or Quotation**" are defined within 600(b)(57) and (58), as appropriate, of Regulation NMS.

(27) The term "**Protected NBBO**" means the best Protected Bid and the best Protected Offer in a stock.

(28) The term "**representative**" shall have the meaning assigned to it in General 4, Section 1.1220(b)(1).

(29) The term "**SEC**" means the U.S. Securities and Exchange Commission. Any reference to "Commission" shall also mean the U.S. Securities and Exchange Commission.

(30) The term "**Securities Act**" means the Securities Act of 1933, as amended.

(31) The term "**security**" or "**securities**" includes stocks, bonds, notes, certificates of deposit or participation, trust receipts, rights, options contracts, warrants Cash Index Participations and other similar instruments.

(32) The term "**stock**" includes voting trust certificates, certificates of deposit for stocks, rights, warrants, and other securities classified for trading as stocks by the Exchange.

(33) The term "**proprietary trading firm**" for purposes of General 4, Section 1.1210 means a member organization or applicant with the following characteristics:

(i) The applicant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act.

(ii) All funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts.

(iii) The applicant does not, and will not have customers.

(iv) All principals and representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant.

## **General 2 Organization and Administration**

### **Section 1. Reserved**

**Section 2. Fees, Dues and Other Charges**

(a) The Board of Directors shall have the power (i) to establish, assess and levy such fees, dues and other charges (including, without limitation, any extraordinary assessments) upon permit holders, members, member organizations and any other persons using the facilities or services of the Exchange, and upon applicants for and persons being admitted, registered, qualified and/or initiated to any such status, in each case as the Board of Directors may from time to time establish by resolution or in the Rules of the Exchange (which shall be deemed to include any schedule of fees, dues, other charges and penalties as may be in effect from time to time), (ii) to establish rebates, credits and discounts with respect to any of the foregoing, (iii) to establish programs whereby the Exchange shares or permits any person to participate in any identified source of revenues (less any expenses or other charges as the Exchange shall determine) of the Exchange, (iv) to provide for the direct reimbursement to the Exchange of any cost, expense or category thereof, and (v) except insofar as otherwise specified or provided for in the By-Laws, to establish and assess penalties for failure to pay any fees, dues or charges owed to the Exchange, including, without limitation, termination of a permit (which permit may be reissued) and forfeiture of all rights as a member, member organization or permit holder. The Board of Directors may authorize any committee thereof or the Chair of the Board of Directors to exercise any powers of the Board of Directors with respect to the assessment of fees, dues, other charges and penalties authorized in accordance with this Section.

(b) Without limiting the generality of the provisions of the By-Laws, the Board of Directors may, from time to time, fix and impose charges upon members or member organizations, measured by their respective net commissions on transactions effected on the Exchange. Such charges shall be payable at such times and shall be collected in such manner as may be determined by the Board of Directors.

(c) The obligation of members, and member organizations to abide by the provisions of these By-Laws and the Rules of the Exchange shall include, without limitation, the obligation to pay all applicable fees, dues and other charges imposed thereon by these By-Laws or the Rules of the Exchange.

(d) The Board of Directors or their designee may suspend or terminate, after due notice, any permit or rights of any member, member organization or employee thereof using facilities or services of the Exchange, or enjoying any of the privileges therein, who shall not pay dues, fees, other charges, other monies due and owed the Exchange, fines and/or other monetary sanctions in accordance with the Rules of the Exchange.

(e) Subject to the following conditions and procedures, a member or a member organization may pay a regulatory fine via an installment plan:

(1) The member or member organization must check the installment plan option on the election of payment form included with the offer of settlement.

(2) The fine under the offer of settlement must be fifty thousand dollars (\$50,000) or more. A fine of less than fifty thousand dollars (\$50,000) is not eligible for the installment plan.

(3) A down payment of twenty-five percent (25%) or more of the total fine must be submitted with the signed offer of settlement.

(4) An installment package, including a promissory note and payment schedule, will be mailed to the member or member organization upon receipt of the down payment, as required in paragraph (3) above.

(5) An executed (signed and notarized) promissory note for the unpaid balance of the fine must be returned with the first installment payment.

(6) The term of the installment plan shall not exceed four (4) years after the execution of the offer of settlement. The member or member organization may elect monthly or quarterly payments.

(f) *Member Obligations.* Each member shall be liable for such fees, fines, dues, penalties and other amounts imposed by the Exchange in connection with his permit or any activities conducted in connection therewith by such member, whether or not any such obligation was incurred on behalf or for his account, or on behalf or for the account of his member organization.

(g) *Member Organization Obligations.* Each member organization shall be liable for all fees, fines, dues, penalties or other amounts imposed by the Exchange upon such member organization, and upon, any member associated with such member organization in connection with a permit or any activities conducted in connection therewith by such member on behalf or for the account of such member organization. Member organizations may allocate responsibilities as among themselves regarding members associated with more than one member organization, provided that such allocation and any amendment thereto is in writing and duly executed by authorized officers or partners of such member organization and submitted to the Exchange in a form prescribed by the Exchange at least 30 days prior to the effectiveness thereof or such shorter period as the Chairman of the Board of Directors or his designee shall specify.

(h) *Effect of Suspension or Termination on Payment of Fees.* The suspension or termination of a permit shall not relieve the holder thereof or its member organization from any obligation to pay any applicable dues, fees or other charges billed or accrued through the time of such suspension or termination, and any fines or penalties assessed before or after the time of such suspension or termination.

(i) *Effect of Suspension or Termination.* When a member's permit is suspended under the provisions of this Rule, such member shall be deprived during the term of such suspension of all rights and privileges of a member but he or she may be proceeded against by the Exchange for any offense other than that for which such suspension was imposed. The termination of any permit or rights and privileges of a member shall terminate all rights and privileges (but not the obligations) arising out of his possession of a permit.

### **Section 3. Exchange's Costs of Defending Legal Proceedings**

Any member or member organization, or person associated with any of the foregoing who fails to prevail in a lawsuit or other legal proceeding instituted by such person or entity against the



Exchange or any of its board members, officers, committee members, employees, or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed \$50,000.00. This provision shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

#### **Section 4. Affiliation and Ownership Restrictions**

##### **(a) Nasdaq Ownership Restriction**

(i) No member, member organization, or person associated with a member organization shall be the beneficial owner of greater than twenty percent (20%) of the then-outstanding voting securities of Nasdaq, Inc.

(ii) For purposes of this Rule, any calculation of the number of shares of common stock outstanding at any particular time shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i)(D) under the Exchange Act, as amended ("Exchange Act"). The term "beneficial owner" shall have the meaning set forth in the Restated Certificate of Incorporation of Nasdaq, Inc.

##### **(b) Restrictions on Affiliation**

(i) Except as provided in paragraph (ii) below:

(A) the Exchange or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member, member organization, or an affiliate of an Exchange member or member organization in the absence of an effective filing under Section 19(b) of the Exchange Act; and

(B) an Exchange member or member organization shall not be or become an affiliate of the Exchange, or an affiliate of an entity affiliated with the Exchange, in the absence of an effective filing under Section 19(b) of the Exchange Act.

The term "affiliate" shall have the meaning specified in Rule 12b-2 under the Exchange Act; provided, however, that for purposes of this Rule, one entity shall not be deemed to be an affiliate of another entity solely by reason of having a common director. The term "business venture" means an arrangement under which (A) the Exchange or an entity with which it is affiliated, and (B) an Exchange member or member organization, or an affiliate of an Exchange member or member organization, engage in joint activities with an expectation of shared profit and a risk of shared loss from common entrepreneurial efforts.

(ii) Nothing in this Rule shall prohibit, or require a filing under Section 19(b) of the Exchange Act, for:

(A) an Exchange member or member organization, or an affiliate of an Exchange member or member organization, acquiring or holding an equity interest in Nasdaq, Inc. that is permitted by the ownership limitations contained in Rule 985(a), or

(B) the Exchange or an entity affiliated with the Exchange acquiring or maintaining an ownership interest in, or engaging in a business venture with, an affiliate of an Exchange member or member organization if:

(I) there are information barriers between the member or member organization and the Exchange and its facilities, such that the member or member organization

(aa) will not be provided an informational advantage concerning the operation of the Exchange and its facilities, and will not be provided changes or improvements to the System that are not available to the industry generally or other Exchange members or member organizations;

(bb) will not have any knowledge in advance of other Exchange members or member organizations of proposed changes, modifications, or improvements to the operations or Systems of the Exchange and its facilities, including advance knowledge of Exchange filings pursuant to Section 19(b) of the Exchange Act;

(cc) will be notified of any proposed changes, modifications, or improvements to the operations or Systems of the Exchange and its facilities in the same manner as other Exchange members or member organizations are notified; and

(dd) will not share employees, office space, or databases with the Exchange or its facilities, Nasdaq, Inc., or any entity that is controlled by Nasdaq, Inc.; and

(II) the Exchange's Board certifies, on an annual basis, to the SEC's Division of Trading and Markets that the Exchange has taken all reasonable steps to implement the requirements of this Rule and is in compliance therewith.

(c)

(1) Nasdaq, Inc., which owns Nasdaq Options Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Options Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is

available generally to similarly situated Exchange members and member organizations in connection with the provision of inbound routing to the Exchange.

(2) Nasdaq, Inc., which owns Nasdaq Execution Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange members and member organizations in connection with the provision of inbound routing to the Exchange.

**Section 5. Reserved**

**Section 6. Reserved**

**Section 7. Reserved**

**Section 8. Reserved**

**Section 9. Reserved**

**Section 10. Reserved**

**Section 11. Reserved**

**Section 12. The Exchange's Business Continuity and Disaster Recovery Plan Testing Requirements for Member Organizations and PSX Participants Pursuant to Regulation SCI**

With respect to the Exchange's business continuity and disaster recovery plans, including its backup systems, the Exchange shall:

(a) Establish standards for the designation of those Member Organizations and PSX Participants that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of such plans. Such standards may include volume-based and/or market share-based criteria, and may be adjusted from time to time by the Exchange. The Exchange will provide public notice of the standards;

(b) Designate Members Organizations and PSX Participants pursuant to the standards established in paragraph (a) of this rule and require participation by such designated Members Organizations and PSX Participants in scheduled functional and performance testing of the operation of such plans, in the manner and frequency specified by the Exchange, provided that such frequency shall not be less than once every 12 months. The Exchange will provide at least six months prior notice to Members Organizations and PSX Participants that are designated for mandatory testing, and participation of such Members Organizations and PSX Participants is a condition of membership.

**Section 13. Reserved****Section 14. Additional Requirements for Securities Listed on the Exchange Issued by Nasdaq or its Affiliates**

(a) For purposes of this Rule, the terms below are defined as follows:

(1) "Nasdaq Affiliate" means Nasdaq, Inc. and any entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with Nasdaq, Inc., where "control" means that the one entity possesses, directly or indirectly, voting control of the other entity either through ownership of capital stock or other equity securities or through majority representation on the board of directors or other management body of such entity.

(2) "Affiliate Security" means any security issued by a Nasdaq Affiliate or any Exchange-listed option on any such security, with the exception of Trust Shares and Index Fund Shares.

(A) The term "Trust Shares" means a security (a) that is based on a unit investment trust ("Trust") which holds the securities which comprise an index or portfolio underlying a series of Trust Shares; (b) that is issued by the Trust in a specified aggregate minimum number in return for a "Portfolio Deposit" consisting of specified numbers of shares of stock plus a cash amount; (c) that, when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the "Portfolio Deposit"; and (d) that pays holders a periodic cash payment corresponding to the regular cash dividends or distributions declared with respect to the component securities of the stock index or portfolio of securities underlying the Trust Shares, less certain expenses and other charges as set forth in the Trust prospectus.

(B) The term "Index Fund Shares" means a security (a) that is issued by an open-end management investment company based on a portfolio of stocks that seeks to provide investment results that correspond generally to the price and yield performance of specified foreign or domestic stock index; (b) that is issued by such an open-end management investment company in a specified aggregate minimum number in return for a deposit of specified numbers of shares of stock and/or a cash amount with a value equal to the next determined net asset value; and (c) that, when aggregated in the same specified minimum number, may be redeemed at a holder's request by such open-end investment company which will pay to the redeeming holder the stock and/or cash with a value equal to the next determined net asset value.

(b) Upon initial and throughout continued listing and trading of the Affiliate Security on the Exchange, the Exchange shall:

(1) provide a quarterly report to the Exchange's Regulatory Oversight Committee detailing the Exchange's monitoring of:

(A) the Affiliate's securities compliance with the listing requirements; and

(B) the trading of the Affiliate Security, which shall include summaries of all related surveillance alerts, complaints, regulatory referrals, trades cancelled or adjusted pursuant to PSX Rule 3312, investigations, examinations, formal and informal disciplinary actions, exception reports and trading data of such security.

(2) engage an independent accounting firm once a year to review and prepare a report on the Affiliate Security to ensure that the Affiliate is in compliance with the listing requirements and promptly provide PHLX's Regulatory Oversight Committee with a copy of the report prepared by the independent accounting firm.

(c) In the event that the Exchange determines that the Affiliate is not in compliance with any of the listing requirements the Exchange shall file a report with the Commission within five business days of providing notice to the issuer of its non-compliance. The report shall identify the date of non-compliance, type of non-compliance and any other material information conveyed to the issuer in the notice of non-compliance. Within five business days of receipt of a plan of compliance from the issuer, the Exchange shall notify the Commission of such receipt, whether the plan of compliance was accepted by the Exchange or what other action was taken with respect to the plan and the time period provided to regain compliance within the listing standards, if any.

#### **Section 15. Reserved**

#### **Section 16. Reserved.**

#### **Section 17. Accommodations**

Notwithstanding the limitations of liability set forth in Options 3, Section 27, Options 4A, Sections 19, and PSX Rule 3226, the Exchange, subject to the express limits set forth below, may compensate users of Nasdaq PHLX for losses directly resulting from the actual failure of the System or any other Exchange quotation, transaction reporting, execution, order routing or other systems or facility to correctly process an order, Quote/Order, message, or other data, provided that Nasdaq PHLX has acknowledged receipt of the order, Quote/Order, message, or data.

(1) For the aggregate of all claims made by all market participants related to the use of Nasdaq PHLX during a single calendar month, the Exchange's liability shall not exceed the larger of \$500,000, or the amount of the recovery obtained by the Exchange under any applicable insurance policy.

(2) In the event all of the claims arising out of the use of Nasdaq PHLX cannot be fully satisfied because in the aggregate they exceed the maximum amount of liability provided

for in this Rule, then the maximum amount will be proportionally allocated among all such claims arising during a single calendar month.

(3) All claims for compensation pursuant to this Rule shall be in writing and must be submitted no later than 12:00 P.M. ET on the next business day following the day on which the use of Nasdaq PHLX gave rise to such claims. Nothing in this rule shall obligate the Exchange to seek recovery under any applicable insurance policy.

### **Section 18. Members' Contracts**

(a) All contracts of a member of the Exchange or a member organization with any member of the Exchange or with any member organization for the purchase, sale, borrowing, loaning or hypothecation of securities, or for the borrowing, loaning, or payment of money, whether occurring upon the Exchange or elsewhere, are members' contracts.

(b) An exchange contract is:

(1) a member's contract made on the Exchange; and

(2) a member's contract not made on the Exchange, unless made subject to the rules of another exchange, or unless the parties thereto have expressly agreed that the same shall not be an exchange contract.

### **Section 19. Deliveries through Registered Clearing Agencies**

Clearance and settlement of transactions effected on the Exchange shall be made through one or more registered clearing agencies providing such services unless it is otherwise agreed by the parties to the transaction.

### **Section 20. Disapproval of Business**

Whenever it shall appear to the Board of Directors that a member has formed a business entity or established an office or headquarters or is individually or through any member of his or her organization interested in a business entity, or has formed any business connection, whereby the interest or good repute of the Exchange may suffer, the Board of Directors may require the dissolution of any such business entity or the discontinuance of such business, office or headquarters or business connection, as the case may be.

### **Section 21. Office Vacated by Suspension or Termination**

Upon the suspension or termination by the Exchange of any permit or the rights and privileges of a member, whether for insolvency or otherwise, any office in the Exchange held by him shall thereupon become vacant.

### **Section 22. Sponsored Participants**

(a) The Exchange shall be available for entry and execution of orders by Sponsored Participants with authorized access. Sponsored Access shall mean an arrangement whereby a member organization permits its customers to enter orders into the Exchange's System that bypass the member organization's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

(b) A Sponsored Participant may obtain authorized access to the Exchange only if such access is authorized in advance by one or more Sponsoring Member Organizations as follows:

(i) Sponsored Participants must enter into and maintain participant agreements with one or more Sponsoring Member Organizations establishing a proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange ("Customer Agreement"). Such Customer Agreement(s) must incorporate sponsorship provisions set forth in sub-paragraph (ii) below.

(ii) For a Sponsored Participant to obtain and maintain authorized access to the Exchange, a Sponsored Participant and its Sponsoring Member Organization must agree in writing to the following sponsorship provisions:

(A) The authorized access must comply with Rule 15c3-5 under the Exchange Act.

(B) The Sponsoring Member Organization acknowledges and agrees that:

(1) All orders entered by the Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member Organization;

(2) Sponsoring Member Organization is responsible for any and all actions taken by such Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant.

(C) Sponsoring Member Organization shall comply with the Exchange's Limited Liability Company Agreement, By-Laws, Rules and procedures with regard to the Exchange and Sponsored Participant shall comply with the Exchange's Limited Liability Company Agreement, By-Laws, Rules and procedures with regard to the Exchange, as if Sponsored Participant were an Exchange member organization.

(D) Sponsored Participant shall maintain, keep current and provide to the Sponsoring Member Organization a list of individuals authorized to obtain access to the Exchange on behalf of the Sponsored Participant.

(E) Sponsored Participant shall familiarize its authorized individuals with all of the Sponsored Participant's obligations under this Rule and will assure that they receive appropriate training prior to any use or access to the Exchange.

(F) Sponsored Participant may not permit anyone other than authorized individuals to use or obtain access to the Exchange.

(G) Sponsored Participant shall take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the Exchange, or the information and data made available therein.

Sponsored Participant understands and agrees that Sponsored Participant is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of authorized individuals, and for the trading and other consequences thereof.

(H) Sponsored Participant acknowledges its responsibility to establish adequate procedures and controls that permit it to effectively monitor its employees', agents' and Participants' use and access to the Exchange for compliance with the terms of this agreement.

(I) Sponsored Participant shall pay when due all amounts, if any, payable to Sponsoring Member Organization, Exchange, or any other third parties that arise from the Sponsored Participant's access to and use of the Exchange. Such amounts include, but are not limited to applicable exchange and regulatory fees.

### **General 3 Membership and Access**

#### **Section 1 Qualification as Member Organization**

(a) The Board of Directors may permit a member of this Exchange to qualify an entity as a member organization, subject to such terms and conditions as may from time to time be prescribed by Rule or may be imposed by the Board of Directors.

(b) Only an organization whose principal purpose is the transaction of business as a broker or dealer in securities may be qualified as a member organization.

(c) A Member Organization shall be organized under the laws of a jurisdiction approved by the Membership Department.

(d) If it appears to the Membership Department that the business form of a member organization is being used to evade financial responsibility, such organization shall not be registered as a member organization.

(e) No bank and no investment trust may be qualified or registered as a member organization.

(f)

(1) To obtain and maintain the status of a member organization, an organization shall: (i) be a broker or dealer duly registered under the Exchange Act; (ii) be duly qualified by a permit holder who is primarily affiliated with such organization for purposes of nominating as provided in the By-Laws; (iii) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and materials requested by the Membership Department; (iv) have had such application approved by the Membership Department; and (v) meet such other requirements as are set forth in these By-Laws or the Rules of the Exchange.



(2) To obtain and maintain the status of a Market Maker on PSX, a member organization whose market making has not previously been approved by FINRA under the NASD Rule 1000 Series (or such successor FINRA Rules as may be adopted by FINRA), Nasdaq under General 3, or Nasdaq BX under General 3 shall: (i) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and material requested by the Membership Department; (ii) have had such application approved by the Membership Department; and (iii) meet such other requirements as are set forth in the By-Laws or Rules of the Exchange. The information to be provided shall include a business plan, an organizational chart, written supervisory procedures reflecting the change, and such other information as the Membership Department may request.

(3) An applicant that is an approved member in good standing of The Nasdaq Stock Market, LLC ("Nasdaq") or Nasdaq BX, Inc. ("BX") shall have the option to apply to become a member of the Exchange and to register with the Exchange all associated persons of the firm whose registrations with the firm are approved with Nasdaq or BX in categories recognized by the Rules of the Exchange through an expedited process. The expedited process requires applicants to complete an Organization Membership Application and attest that the application material previously provided and reviewed as part of the Nasdaq or BX application is complete and accurate but does not require the applicant to submit duplicative documentation which was previously produced.

(g) Upon any violation of the terms and conditions of its registration, or if at any time the requirements thereof are not met, the Board of Directors may terminate the registration of a member organization by the affirmative vote of a majority of all Directors.

(h) A member of the Exchange who has qualified a member organization or a member organization may apply to the Membership Department for termination of the registration of the member organization. Such termination shall become effective upon such date as the Membership Department may determine and in no event shall it be effective until and unless the member organization and the member have discharged all commitments and liabilities to the Exchange and to its members and member organizations, or have made provision therefor satisfactory to the Membership Department. If the member who has qualified the member organization is prevented by death or incapacity from applying for the termination of such registration, the application may be made under the same terms and conditions as herein provided by his legal representative.

(i) During the unavoidable absence or disability of an officer (or person in a similar position) of a member organization who is a member of the Exchange, any officer or director (or person in a similar position) of such member organization shall have the privilege of effecting transactions on the Exchange in the name of the member organization.

## **Section 2. Denial of and Conditions to Membership**

(a) The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer, or may deny or condition the qualification or registration of any member

organization, if any such person, registered broker or dealer or member organization is subject to a statutory disqualification, as that term is defined in the Exchange Act, as amended.

(b) The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer or may deny or condition the qualification or registration of any member organization, if the broker or dealer or member organization (as applicable): (1) is unable satisfactorily to demonstrate its present capacity to adhere to applicable provisions of (i) Sections 15 and 17 of the Exchange Act, as amended, and all rules and regulations promulgated thereunder or (ii) Exchange Rules relating to the maintenance of books and records; or (2) has previously been found to have violated and there is a reasonable likelihood the broker or dealer or member organization will again engage in acts or practices violative of (A) Sections 15 and 17 of the Exchange Act, as amended, and all rules and regulations promulgated thereunder, or (B) Rules relating to the maintenance of books and records of the Exchange or other self-regulatory organizations of which the broker or dealer or member organization is or was a member.

(c) The Exchange may deny a permit to, or condition the permit of, any person or may bar and deny from becoming associated, or condition any association of, any person with a registered broker or dealer, or may deny or condition the qualification, if such broker or dealer, person or member organization: (1) does not successfully complete such written proficiency examinations as required by the Exchange to enable it to examine and verify the applicant's qualifications to function in one or more of the capacities applied for; (2) does not meet such other standards of training, experience, and competence as may be established by the Exchange; (3) cannot demonstrate a capacity to adhere to all applicable policies, rules and regulations of the Exchange or any other self-regulatory organization, the SEC, the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission contract market designated pursuant to Section 5 of the Commodity Exchange Act or futures association registered under Section 17 of such Act; (4) has been the subject of findings of fact rendered by any of the above mentioned entities such that the broker or dealer, person or member organization has engaged in acts or practices inconsistent with just and equitable principles of trade, and there is a reasonable likelihood the person will do so again; or (5) (i) is subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature, which remain outstanding (ii) has been or is the successor to an entity which has been subject to any bankruptcy proceeding, receivership or arrangement for the benefit of creditors within the past three years (iii) has been and/or remains associated as a general partner, principal, officer, director, stockholder, or registered trader for a member organization which has been subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature (iv) has engaged in a pattern of failure to pay just debts (v) would bring the Exchange into disrepute or (vi) for such other cause as the Membership Department reasonably may decide.

(d) The Membership Department may, in exceptional cases and where good cause is shown, waive such proficiency examinations as are required by the Exchange upon written request of the applicant, and accept other standards as evidence of an applicant's qualifications. Advanced age, physical infirmity or experience in fields ancillary to the securities business will not individually of themselves constitute sufficient grounds to waive a proficiency examination.

**Section 3. Reserved****Section 4. Reserved****Section 5. Member Applications**

(a) Every applicant for a membership or a permit and every non-member seeking admission as a member upon acquisition of an existing membership shall file an application in writing with the Membership Department of the Exchange in such form as the Membership Department may prescribe from time to time, shall appear before such department if required thereby, and shall submit such information as such department may direct.

(b) All applications will be reviewed preliminarily by the staff of the Exchange. If the staff recommends that the applicant not be issued a membership or a permit the applicant shall be notified in writing of the reasons therefor and may, within fifteen (15) days of the receipt thereof, file a request with the Membership Department for its consideration of the application, together with a written statement setting forth the applicant's opinion as to why the staff recommendation is in error or insufficient to preclude the issuance of a membership or a permit.

(c) The Membership Department shall review and act upon the membership application or permit application.

(d) Absent a showing of good cause, an application filed pursuant to this Rule shall lapse after a 90 calendar day period if an applicant fails to provide the requisite documentation provided for in this Rule or any subsequent written request for information or documents pursuant to this Rule within such time period agreed to by the Membership Department. If such time period elapses, an applicant seeking membership to the Exchange shall be required to file a new application pursuant to this Rule. The applicant will be required to pay an additional application fee at that time. The Exchange will not refund any fees for lapsed applications.

**Section 6. Reserved****Section 7. Registration**

(a) Each member and member organization shall register with the Membership Department an address where notices may be served. Subsequent changes in address must be provided to the Membership Department of the Exchange before the effective date thereof.

(b) Each member and member organization shall register with the Exchange, on such form or forms as may from time to time be required by the Membership Department. Registration forms shall include, but not be limited to, (i) the name and address of the individual member having qualified such member organization in accordance with General 3, Section 1 and (ii) the name and address of the Executive Representative designated by such member organization in accordance with General 3, Section 13(b). Members and member organizations must use Financial Industry Regulatory Authority's ("FINRA")(formerly the National Association of Securities Dealers, Inc. Web Central Registration Depository ("Web CRD") to submit Form U4, Uniform Application for Securities Industry Registration or Transfer registration filings. Members and member organizations shall amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

(c) Each member organization applicant that is a registered broker or dealer pursuant to Section 15 of the Exchange Act must use Web CRD to submit a Uniform Application for Broker-Dealer Registration, Form BD. Member organizations shall amend Form BD filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

(d) In addition to the requirements of paragraph (a) above, each member organization must comply with the contact information requirements of this paragraph (d).

(1) Each member organization shall report to the Exchange all contact information required by the Exchange via the FINRA Contact System.

(2) Each member organization shall update its required contact information promptly, but in any event not later than 30 days following any change in such information. In addition, each member organization shall review and, if necessary, update its required contact information, via such means as the Exchange may specify, within 17 business days after the end of each calendar year.

(3) Each member organization shall comply with any Exchange request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by Exchange staff.

### **Section 8. Status Verification**

Upon the request of any member or member organization, the Membership Department of the Exchange shall provide such member or member organization (as applicable) with reasonable written verification of its status as a member or member organization.

### **Section 9. Administration of Rules by Membership Department**

The Membership Department shall administer General 3, inclusive.

### **Section 10. General Powers and Duties of Membership Department**

(a) The Membership Department shall have jurisdiction over the issuance of memberships (in respect of members and member organizations) and permits and over applications by non-members for admission as members. The Membership Department shall also have jurisdiction over the revocation of memberships and permits. All applications for a membership or a permit, all applications by non-members for admission as members, all applications for reinstatement of any membership or permit suspended for insolvency of its holder, and any application for readmission of a person who has been expelled from the Exchange shall be referred to the Membership Department for review and action.

(b) All applications to qualify and register a corporation or other entity as a member organization and all applications for reinstatement of any qualification or registration of a member organization shall be referred to the Membership Department which shall investigate and act thereon. The Membership Department shall have supervision over member corporation (and

similar) arrangements, and copies of the articles of incorporation, by-laws and all amendments thereto shall be filed with the Membership Department for approval.

(c) If in a member organization that is a corporation the only officer, who was a member of this Exchange, dies or resigns, the remaining officers may request the Membership Department to permit the corporation to have the status of a member organization for such period, not exceeding sixty (60) days from the date of such death or resignation, as the Membership Department may determine and under such conditions as it may fix. The Membership Department in its discretion may, at any time during such period, withdraw such permission and upon such withdrawal such status shall terminate.

### **Section 11. Rights and Privileges of A-1 Permits**

(a) Without limiting the authority of the Exchange pursuant to Section 7-6 of the By-Laws to authorize the issuance of additional classes or series of permits pursuant to these Rules, the Exchange is authorized to issue a series of permits, denoted as "Series A-1", and to confer on the holder thereof such rights and privileges, and impose on the holder thereof such obligations, as are provided in this Rule.

(b) A Series A-1 permit shall only be issued to an individual who is a natural person of at least twenty-one (21) years of age. A Series A-1 permit shall only be issued to a corporation who meets the eligibility and application requirements set forth in the By-Laws and Rules, and no individual shall hold more than a single Series A-1 permit. Series A-1 permits issued in accordance with this Rule shall be in such limited or unlimited number and may be issued from time to time by the Exchange, in each case as determined by the Board of Directors in its sole discretion.

(c) Any Series A-1 permit holder who is associated with a duly qualified and registered member organization (unless such holder's permit has been terminated or the rights and privileges thereof have been suspended or restricted) shall, subject to the By-Laws (including, without limitation, Section 6-1 thereof) and these Rules, be:

(i) entitled to all the rights, privileges and obligations of a member of the Exchange and may enter into foreign currency options transactions on the Exchange, subject to (A) the general criteria set forth in these Rules or the By-Laws with respect to testing, capital, allocation and other matters, as well as such requirements as are applicable to specific Exchange activities, and further subject to the payment of any generally applicable fees, dues and other charges and (B) any product-specific criteria set forth in these Rules or the By-Laws, and further subject to any applicable fees, dues and charges relating to trading any product of the Exchange;

(ii) required to designate a single existing or applying member organization as such permit holder's "primarily affiliated" member organization for the purpose of exercising (through such member organization's designated Member Organization Representative) such permit holder's right to vote, as set forth in Article II of the By-Laws, provided that, if such holder designates any applying member organization, such holder will then also

qualify such applying member organization for the purposes of General 3, Section 13(a); and

(iii) required to maintain a primary affiliation, as described in the foregoing clause (ii), with an eligible member organization at all times that such holder holds a permit.

(d) A Series A-1 permit shall not be effective unless it has been issued by the Exchange in accordance with the By-Laws and these Rules.

(e) The Series A-1 permit holder may terminate such permit at any time upon written notice to the Exchange, such written notice shall be ascribed by the Exchange. The terminating Series A-1 permit holder and each member organization with which such holder is associated shall remain responsible for all obligations of the terminating member, including, without limitation, all applicable dues, fees, charges, fines and other obligations arising from the holding or use of such Series A-1 permit prior to the termination thereof.

(f) The Exchange may terminate any Series A-1 permit in accordance with By-Laws and Exchange Rules and may also terminate the entire series of Series A-1 permits on no less than 60 days' notice to the permit holders; provided, however, that if within six months after any such termination of the entire series of Series A-1 permits the Exchange issues any other class or series of permit with respect to any securities product previously covered by the Series A-1 permit, any permit holder of such terminated series of Series A-1 permit, who meets the applicable eligibility requirements with respect to such new class or series of permit, shall be entitled to receive on terms no less favorable than those applicable to other persons such new class or series of permit so long as such permit holder will trade with such new class or series of permit such product in the same capacity as he had done with a Series A-1 permit prior to such termination, but only if he had continuously traded such product in such capacity for at least one year prior to such termination; provided, further, that such holder of the terminated Series A-1 permit shall make application for such new permit within 30 days of the later to occur of (i) the termination of the series of Series A-1 permit or (ii) the initial issuance of the new class or series of permit.

(g) Notwithstanding termination of a permit for any reason, the permit holder and each member organization with which such permit holder had been associated while such permit was held shall remain subject to the continuing regulatory jurisdiction of the Exchange in respect of all matters related to the holding or use of such permit and all activities involving the Exchange and trading on the Exchange or any other use of Exchange facilities, and in respect of fees, dues and other charges, prior to the termination thereof.

(h) A permit may not be transferred by lease, sale, gift, involuntary transfer, or any other means or as collateral to secure any obligation, except that a permit may be transferred within the permit holder's member organization or to an "inactive nominee" who is registered as such with the Exchange, subject to the provisions of the By-Laws and Rules relating to an "inactive nominee".

## **Section 12. Member and Member Organization Participation**

(a) Participation in the Exchange as a member or member organization requires current registration as such with the Exchange. Such registration shall be conditioned upon the member or member organization's initial and continuing compliance with the following requirements:

(1) execution of applicable agreements with the Exchange;

(2) membership in, or access arrangement with a member of, a clearing agency registered with the Commission which maintains facilities through which Exchange compared trades may be settled;

(3) compliance with all applicable Rules and operating procedures of the Exchange and the Commission in the use of the system including, but not limited to, PSX, the System and the Floor Based Management System ("FBMS") (for purposes of this Rule, PSX, and FBMS together shall be defined as ("System"));

(4) maintenance of the physical security of the equipment located on the premises of the member or member organization to prevent the improper use or access to the Exchange's systems, including unauthorized entry of information into the Exchange's System; and

(5) acceptance and settlement of each trade that the Exchange identifies as having been effected by such member or member organization, or if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such identified Exchange trade by the clearing member on the regularly scheduled settlement date; and

(6) input of accurate information into the System, including, but not limited to, whether the member organization acted in a principal, agent, or riskless principal capacity.

A member's registration shall become effective upon receipt by the member or member organization of notice of an approval of registration by the Exchange. The registration required hereunder will apply solely to the qualification of a member or member organization to participate in the System. Registration will qualify a member or member organization to trade all System Securities.

(b) Each member or member organization shall be under a continuing obligation to inform the Exchange of noncompliance with any of the registration requirements set forth above.

(c) The Exchange may impose upon any member or member organization such temporary restrictions upon the automated entry or updating of orders or quotes/orders as the Exchange may determine to be necessary to protect the integrity of the Exchange's systems. For example, such temporary restrictions may be necessary to address a system problem at a particular member or member organization or at the Exchange, or an unexpected period of extremely high message traffic. The scope of any such restrictions shall be communicated to the affected member or member organization in writing.

**Section 13. Qualification; Designation of Executive Representative**

(a) Each member organization, as a condition of initial and continued registration as a member organization, must be a broker or dealer duly registered with the SEC qualified by a permit holder who is associated with such organization. A member of the Exchange who proposes to qualify an entity as a member organization shall present to the Membership Department an application therefor, in writing, signed by the member and the entity. Each member may qualify only a single member organization.

(b) Each member organization must, as a condition of initial and continued registration as a member organization, designate and maintain one qualified Executive Representative, who will be the sole person entitled to exercise such member organization's voting and designation rights set forth in Article II of the By-Laws. Each member organization shall designate its Executive Representative in writing in such form or manner as shall be prescribed from time to time by the Exchange.

(c) In the event that the Executive Representative of a member organization or the permit holder who qualified a member organization dies, ceases to be associated with the member organization or otherwise is unable to serve as such, such member organization shall immediately notify the Exchange thereof in writing and replace such Executive Representative or permit holder through which such member organization is qualified promptly, but in no event more than 60 days, after such death, cessation or inability, during which period any other officer or agent of the member organization may temporarily act as the Executive Representative or qualifying permit holder for such organization. If the member organization fails for any reason to so notify the Exchange or replace such Executive Representative or qualifying permit holder within such period, until such replacement is effected, such member organization may not exercise any voting rights with respect to any permits held by persons who are associated with such member organization.

(d) In the event that such Executive Representative or permit holder dies, ceases to be associated with the member organization or otherwise is unable to serve as such, such organization shall replace such Executive Representative or permit holder through which such member organization is qualified promptly, as specified in the Rules of the Exchange, provided that until such replacement is effected the ability of other officers or agents of the member organization to act temporarily for such organization shall be as set forth in the Rules of the Exchange. The penalties and other consequences of a member organization failing to designate or replace a Executive Representative within the time period specified above shall be as provided in the Rules of the Exchange. The Rules of the Exchange may provide for appropriate procedures concerning the designation and replacement of, and any other matters pertaining to Executive Representatives.

**Section 14. Transfer of Accounts**

A member or member organization who desires to transfer an Exchange account(s) to or from a member organization shall be required to: (1) notify the Exchange's Membership Department in writing of its intent to transfer account(s) in a manner prescribed by the Membership Department; and (2) execute and provide a Letter of Indemnity to the Exchange.

**Section 15. Certificate of Incorporation**



The certificate of incorporation and by-laws of a proposed member organization that is a corporation and all amendments thereto shall be filed with the Membership Department and shall be subject to its approval. There shall also be filed with the Membership Department evidence satisfactory to it that the officers of the corporation are duly authorized to act for it in entering into contracts which are subject to these Rules of the Exchange.

Amendments to the certificate of incorporation and by-laws of a member organization that is a corporation, proposed subsequent to its registration, shall be subject to review by the Membership Department which shall have power to approve or disapprove the same.

### **Section 16. Review of Membership Department Decisions**

If the Membership Department takes an adverse action with respect to a membership application, permit application, or other matter for which the Membership Department has responsibility, the department will notify the applicant in writing of the specific grounds for denial and the applicant shall have a right to a hearing.

#### (a) Review by the Exchange Review Council

##### (i) Initiation of Review by Applicant

Within 25 days after service of a decision of an adverse action described above, an applicant may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the applicant believes that the Department's decision is inconsistent with the bases for denial set forth in General 3, Section 2, or otherwise should be set aside, and state whether a hearing is requested. The applicant simultaneously shall file by first-class mail a copy of the request with the Department.

##### (ii) Transmission of Documents

Within ten days after the filing of a request for review, the Department shall:

(A) transmit to the Exchange Review Council copies of all documents that were considered in connection with the Department's decision and an index to the documents; and

(B) serve on the applicant a copy of such documents (other than those documents originally submitted by applicant) and a copy of the index.

##### (iii) Membership Application Docket

The Department shall promptly record in the Exchange's membership application docket each request for review filed with the Exchange Review Council under this Rule and each material subsequent event, filing, and change in the status of a membership proceeding.

##### (iv) Appointment of Subcommittee

The Exchange Review Council or the Review Subcommittee defined in General 5, Section 9120 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

*(v) Powers of Subcommittee*

If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Department and any written submissions made by the applicant or the Department in connection with the request for review.

*(vi) Hearing*

*(A) Notice*

If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the hearing to the applicant by facsimile or overnight courier not later than 14 days before the hearing.

*(B) Counsel*

The applicant and the Department may be represented by counsel at a hearing conducted pursuant to this Rule.

*(C) Evidence*

Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the applicant and the Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the applicant or the Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

*(D) Transcript*

The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The applicant, the Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee within a reasonable period of time prescribed by the Subcommittee. Upon notice to the applicant

and the Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

*(vii) Additional Information, Briefs*

At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the applicant or the Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.

*(viii) Abandonment of Request for Review*

If an applicant fails to specify the grounds for its request for review under subparagraph (a)(i), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Department shall become the final action of the Exchange. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

*(ix) Subcommittee Recommendation*

The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (a)(vi), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

*(x) Decision*

*(A) Proposed Written Decision*

After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Department's decision or remand the membership proceeding with instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (B).

*(B) Contents*

The decision shall include:

- (1) a description of the Department's decision, including its rationale;
- (2) a description of the principal issues raised in the review;
- (3) a summary of the evidence on each issue; and

(4) a statement whether the Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in General 3, Section 2.

(C) Issuance of Decision After Expiration of Call for Review Periods

The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the membership proceeding for review pursuant to paragraph (b) of this rule below. If the Exchange Board does not call the membership proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the applicant with a written notice specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

(D) Failure to Issue Decision

If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (C), the applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time, the Exchange Board may extend the 15-day time limit by not more than 15 days.

(b) Discretionary Review by the Exchange Board

(i) Call for Review by Director

A Director may call a membership proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (ii).

(ii) 15 Day Period; Waiver

A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

(iii) Review At Next Meeting

If a Director calls a membership proceeding for review within the time prescribed in subparagraph (ii), the Exchange Board shall review the membership proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the applicant and the Department to file briefs in connection with review proceedings pursuant to this paragraph.

*(iv) Decision of the Exchange Board, Including Remand*

After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may remand the membership proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in General 3, Section 16(a)(x)(B).

*(v) Issuance of Decision*

The Exchange Board shall serve its written decision on the applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the membership proceeding.

\* \* \* \* \*

## **General 9 Regulation**

### **Section 1. Manipulative Operations**

(a) No member, member organization, partner or stockholder therein shall directly or indirectly participate in or have any interest in the profits of a manipulative operation or knowingly manage or finance a manipulative operation.

For the purpose of this Rule

(1) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purpose of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby shall be deemed to be a manipulative operation;

(2) the soliciting of subscriptions to any such pool, syndicate or joint account or the accepting of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and

(3) the carrying on margin of either a long or a short position in securities for, or the advancing of credit through loans of money or of securities to, any such pool, syndicate or joint account shall be deemed to be financing a manipulative operation.

(b) No member or member organization shall execute or cause to be executed or participate in an account for which there are executed purchases of any listed security at successively higher prices, or sales of any such security at successively lower prices, for the purpose of creating or

inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.

(c) No member or member organization shall, for the purpose of creating or inducing a false or misleading appearance of activity in a listed security or creating or inducing a false or misleading appearance with respect to the market in such security:

(1) execute any transaction in such security which involves no change in the beneficial ownership thereof; or

(2) enter any order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties; or

(3) enter any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

(d) No member or member organization shall execute purchases or sales of listed securities for any account in which such member or member organization is directly or indirectly interested, which purchases or sales are excessive in view of the member's or member organization's financial resources or in view of the market for such security.

(e) No member or member organization shall participate or have any interest, directly or indirectly, in the profits of a manipulative operation or knowingly manage or finance a manipulative operation.

(1) Any pool, syndicate or joint account organized or used intentionally for the purpose of unfairly influencing the market price of a listed security shall be deemed to be a manipulative operation.

(2) The solicitation of subscriptions to or the acceptance of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation.

(3) The carrying on margin of a position in such securities or the advancing of credit through loans to any such pool, syndicate or joint account shall be deemed to be financing a manipulative operation.

(f) No member or member organization shall make any statement or circulate and disseminate any information concerning a listed security which such member knows or has reasonable grounds for believing is false or misleading or would improperly influence the market price of such security.

(g) No member, member organization or person associated with a member or member organization shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling a listed security, unless such joint account is promptly reported to Phlx. The report should contain the following information for each account:

(1) Name of the account, with names of all participants and their respective interests in profits and losses;

(2) a statement regarding the purpose of the account;

(3) name of the member carrying and clearing the account; and

(4) a copy of any written agreement or instrument relating to the account.

(h) No member or member organization shall offer that a transaction or transactions to buy or sell a listed security will influence the closing transaction on the Consolidated Tape or The Options Price Reporting Authority ("OPRA").

(i) (1) A member or member organization may, but is not obligated to, accept a Stop Order in a listed security.

(A) A buy Stop Order is an order to buy which becomes a Market Order when a transaction takes place at or above the stop price.

(B) A sell Stop Order is an order to sell which becomes a Market Order when a transaction takes place at or below the stop price.

(2) A member or member organization may, but is not obligated to, accept Stop-Limit Orders in listed securities. When a transaction occurs at the stop price, the Stop-Limit Order to buy or sell becomes a Limit Order at the limit price.

(j) No member, member organization or person associated with a member or member organization shall execute or cause to be executed, directly or indirectly, on a Phlx transaction in a security subject to an initial public offering until such security has first opened for trading on the national securities exchange listing the security, as indicated by the dissemination of an opening transaction in the security by the listing exchange via the Consolidated Tape or OPRA.

## **Section 2. Customers' Securities and Excessive Trading of Members**

(a) No member organization shall make improper use of a customer's securities.

(b) No member, member organization, partner or stockholder therein shall (1) effect on the Exchange purchases or sales for any account in which he or it is directly or indirectly interested, which purchases or sales are excessive in view of his or its financial resources or in view of the market for such security or (2) execute or cause to be executed on the Exchange purchases or sales of any security for any account with respect to which he or it or another partner or

stockholder therein is vested with any discretionary power, which purchases or sales are excessive in view of the financial resources in such account.

(i) The Exchange expects that all trading by members and member organizations will have a constructive effect on the market by adding to its orderliness and liquidity. In this regard, there are certain kinds of trading activity and trading patterns which should be avoided and which may be excessive in view of the market. Among these are: (a) purchases in substantial quantity and with respect to options on plus or zero plus ticks in order to establish or increase a position where the members or member organization trading has shown a pattern buying and selling the same listed option on the same day; (b) a succession of purchases by a member or member organization to establish or increase a position at the same or successively higher prices in the same trading session; and (c) purchases to establish or increase a position where a member or member organization has reason to believe that members' transactions may have accelerated the price movement of a product.

### **Section 3. Reserved**

### **Section 4. Reserved**

### **Section 5. Reserved**

### **Section 6. Reserved**

### **Section 7. Report of Financial Arrangements**

(a) *Financial Arrangements*—Each member, member organization general partner and voting stockholder therein shall report to the Exchange, forthwith in a form prescribed by the Exchange, any financial arrangement entered into, either directly or indirectly, with another member or member organization or general partner, voting shareholder, or any associated person thereof or a non-member. For the purposes of this Rule, a financial arrangement shall be defined as:

1. the direct financing of a member organization's dealings upon the Exchange with the exception of clearing arrangements;
2. any direct equity investment or profit sharing arrangement;
3. any consideration over the amount of \$5,000 that constitutes a gift, loan, salary or bonus; and
4. the guarantee of a trading account with the exception of clearing arrangements

(b) The disclosure of such financial arrangements shall be the responsibility of all members involved. The member organization shall submit to the Exchange notification of the initiation or termination of such financial arrangements within ten (10) business days of the effective date of such arrangements. The notice of termination will constitute the end of the financial arrangement.



(c) Nothing in this rule would require the reporting of agreements for the lending and borrowing of securities, financial arrangements between members affiliated with the same member organization or transactions in publicly traded securities of a member organization.

(d) As used herein, an agreement for the lending of securities shall mean a securities contract or other agreement, including related terms, for the transfer of securities against the transfer of funds, securities or other collateral, with a simultaneous agreement by the transferee to transfer to the transferor against the transfer of funds, securities, or other collateral, upon notice, at a date certain, upon demand, the same or substituted securities.

## **Section 8. Reserved**

## **Section 9. Reserved**

## **Section 10. Recommendations to Customers (Suitability)**

(a) In recommending to a customer the purchase, sale or exchange of any security, member organizations shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a non-institutional customer, other than transactions with customers where investments are limited to money market mutual funds, member organizations shall make reasonable efforts to obtain information concerning:

(1) the customer's financial status;

(2) the customer's tax status;

(3) the customer's investment objectives; and

(4) such other information used or considered to be reasonable by such member organization or its registered representative in making recommendations to the customer.

(c) For purposes of this Rule, the term "non-institutional customer" shall mean a customer that is not (1) a bank, savings and loan association, insurance company, or registered investment company; (2) an investment adviser registered either with the Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (3) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

(d) Implicit in all member organization and registered representative relationships with customers and others is the fundamental responsibility for fair dealing. Sales efforts must therefore be undertaken only on a basis that can be judged as being within the ethical standards of the Exchange's Rules, with particular emphasis on the requirement to deal fairly with the public.

(e) This does not mean that legitimate sales efforts in the securities business are to be discouraged by requirements which do not take into account the variety of circumstances which can enter into the member organization/customer relationship. It does mean, however, that sales efforts must be judged on the basis of whether they can be reasonably said to represent fair treatment for the persons to whom the sales efforts are directed, rather than on the argument that they result in profits to customers.

(f) Some practices that clearly violate a member organization's responsibility for fair dealing are set forth below, as a guide to member organizations:

(1) Recommending Speculative Low-Priced Securities. Recommending speculative low-priced securities to customers without knowledge of or attempt to obtain information concerning the customers' other securities holdings, their financial situation and other necessary data. The principle here is that this practice, by its very nature, involves a high probability that the recommendation will not be suitable for at least some of the persons solicited. This has particular application to high pressure telephone sales campaigns.

(2) Excessive Trading Activity. Excessive activity in a customer's account, often referred to as "churning" or "overtrading." There are no specific standards to measure excessiveness of activity in customer accounts because this must be related to the objectives and financial situation of the customer involved.

(3) Trading in Mutual Fund Shares. Trading in mutual fund shares, particularly on a short-term basis. It is clear that normally these securities are not proper trading vehicles and such activity on its face may raise the question of Rule violation.

(4) Fraudulent Activity

(A) Numerous instances of fraudulent conduct may result in penalties against member organizations. Among some of these activities are:

(1) Fictitious Accounts. Establishment of fictitious accounts in order to execute transactions which otherwise would be prohibited, such as the purchase of hot issues, or to disguise transactions which are against firm policy.

(2) Discretionary Accounts. Transactions in discretionary accounts in excess of or without actual authority from customers.

(3) Unauthorized Transactions. Causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon.

(4) Misuse of Customers' Funds or Securities. Unauthorized use or borrowing of customers' funds or securities.

(B) In addition, other fraudulent activities, such as forgery, non-disclosure or misstatement of material facts, manipulations and various deceptions, may be found to be in violation of Exchange Rules. These same activities are also subject to the civil and criminal laws and sanctions of federal and state governments.

(5) Recommending Purchases Beyond Customer Capability. Recommending the purchase of securities or the continuing purchase of securities in amounts which are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.

(g) While most member organizations are fully aware of the fairness required in dealing with customers, it is anticipated that the practices enumerated in paragraph (f), which are not all inclusive, will be of future assistance in the training and education of new personnel.

(h) The Commission has also recognized that brokers and dealers have an obligation of fair dealing in actions under the general anti-fraud provisions of the federal securities laws. The Commission bases this obligation on the principle that when a securities dealer opens his business he is, in effect, representing that he will deal fairly with the public. Certain of the Commission's cases on fair dealing involve practices not covered in the foregoing illustrations. Usually, any breach of the obligation of fair dealing as determined by the Commission under the anti-fraud provisions of the securities laws could be considered a violation of the Exchange's Rules.

(i) Fair Dealing with Customers with Regard to Derivative Products or New Financial Products. The Exchange emphasizes member organizations' obligations for fair dealing with customers when making recommendations or accepting orders for new financial products. As new products are introduced from time to time, it is important that member organizations make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding the products. Member organizations must follow specific guidelines, set forth below, for qualifying the accounts to trade the products and for supervising the accounts thereafter.

(j) Suitability Obligations to Institutional Customers. The Exchange's suitability rule is fundamental to fair dealing and is intended to promote ethical sales practices and high standards of professional conduct. Member organizations' responsibilities include having a reasonable basis for recommending a particular security or strategy, as well as having reasonable grounds for believing the recommendation is suitable for the customer to whom it is made. Member organizations are expected to meet the same high standards of competence, professionalism, and good faith regardless of the financial circumstances of the customer.

Paragraph (a) requires that, in recommending to a customer the purchase, sale or exchange of any security, a member organization shall have reasonable grounds for

believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs. This interpretation concerns only the manner in which a member organization determines that a recommendation is suitable for a particular institutional customer. The manner in which a member organization fulfills this suitability obligation will vary depending on the nature of the customer and the specific transaction. Accordingly, this interpretation deals only with guidance regarding how a member organization may fulfill such "customer-specific suitability obligations" under paragraph (a).

While it is difficult to define in advance the scope of a member organization's suitability obligation with respect to a specific institutional customer transaction recommended by a member organization, the Exchange has identified certain factors which may be relevant when considering compliance with paragraph (a). These factors are not intended to be requirements or the only factors to be considered but are offered merely as guidance in determining the scope of a member organization's suitability obligations.

The two most important considerations in determining the scope of a member organization's suitability obligations in making recommendations to an institutional customer are the customer's capability to evaluate investment risk independently and the extent to which the customer is exercising independent judgment in evaluating a member organization's recommendation. A member organization must determine, based on the information available to it, the customer's capability to evaluate investment risk. In some cases, the member organization may conclude that the customer is not capable of making independent investment decisions in general. In other cases, the institutional customer may have general capability, but may not be able to understand a particular type of instrument or its risk. This is more likely to arise with relatively new types of instruments, or those with significantly different risk or volatility characteristics than other investments generally made by the institution. If a customer is either generally not capable of evaluating investment risk or lacks sufficient capability to evaluate the particular product, the scope of a member organization's customer-specific obligations under the suitability rule would not be diminished by the fact that the member organization was dealing with an institutional customer. On the other hand, the fact that a customer initially needed help understanding a potential investment need not necessarily imply that the customer did not ultimately develop an understanding and make an independent investment decision.

A member organization may conclude that a customer is exercising independent judgment if the customer's investment decision will be based on its own independent assessment of the opportunities and risks presented by a potential investment, market factors and other investment considerations. Where the broker-dealer has reasonable grounds for concluding that the institutional customer is making independent investment decisions and is capable of independently evaluating investment risk, then a member organization's obligation to determine that a recommendation is suitable for

a particular customer is fulfilled. Where a customer has delegated decision-making authority to an agent, such as an investment advisor or a bank trust department, this interpretation shall be applied to the agent.

A determination of capability to evaluate investment risk independently will depend on an examination of the customer's capability to make its own investment decisions, including the resources available to the customer to make informed decisions. Relevant considerations could include:

- the use of one or more consultants, investment advisers or bank trust departments;
- the general level of experience of the institutional customer in financial markets and specific experience with the type of instruments under consideration;
- the customer's ability to understand the economic features of the security involved;
- the customer's ability to independently evaluate how market developments would affect the security; and
- the complexity of the security or securities involved.

A determination that a customer is making independent investment decisions will depend on the nature of the relationship that exists between the member organization and the customer. Relevant considerations could include:

- any written or oral understanding that exists between the member organization and the customer regarding the nature of the relationship between the member organization and the customer and the services to be rendered by the member organization;
- the presence or absence of a pattern of acceptance of the member organization's recommendations;
- the use by the customer of ideas, suggestions, market views and information obtained from other member organizations or market professionals, particularly those relating to the same type of securities; and
- the extent to which the member organization has received from the customer current comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives.

Member organizations are reminded that these factors are merely guidelines which will be utilized to determine whether a member organization has fulfilled its suitability obligations with respect to a specific institutional customer transaction and that the inclusion or absence of any of these factors is not dispositive of the determination of suitability. Such a determination can only be made on a case-by-case basis taking into

consideration all the facts and circumstances of a particular member organization/customer relationship, assessed in the context of a particular transaction.

For purposes of this interpretation, an institutional customer shall be any entity other than a natural person. In determining the applicability of this interpretation to an institutional customer, the Exchange will consider the dollar value of the securities that the institutional customer has in its portfolio and/or under management. While this interpretation is potentially applicable to any institutional customer, the guidance contained herein is more appropriately applied to an institutional customer with at least \$10 million invested in securities in the aggregate in its portfolio and/or under management.

### **Section 11. Best Execution and Interpositioning**

(a) (1) In any transaction for or with a customer or a customer of another broker-dealer, a member organization and persons associated with a member organization shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a member organization has used "reasonable diligence" are:

(A) the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;

(B) the size and type of transaction;

(C) the number of markets checked;

(D) accessibility of the quotation; and

(E) the terms and conditions of the order which result in the transaction, as communicated to the member organization and persons associated with the member organization.

(2) In any transaction for or with a customer or a customer of another broker-dealer, no member organization or person associated with a member organization shall interject a third party between the member organization and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.

(b) When a member organization cannot execute directly with a market maker but must employ a broker's broker or some other means in order to insure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

(c) Failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member organization of its obligations. However, the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the member organization acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

(d) A member organization through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating member organization has not fulfilled his obligations under this Rule, will also be deemed to have violated this Rule.

(e) The obligations described in paragraphs (a) through (d) above exist not only where the member organization acts as agent for the account of his customer but also where retail transactions are executed as principal and contemporaneously offset.

(f) Paragraph (a) requires, among other things, that a member organization or person associated with a member organization comply with paragraph (a) when customer orders are routed to it from another broker/dealer for execution. This rule text addresses certain interpretive questions concerning the applicability of the best execution rule.

For the purposes of this Rule, the term "market" or "markets" is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

A member organization's duty to provide best execution in any transaction "for or with a customer of another broker/dealer" does not apply in instances when another broker/dealer is simply executing a customer order against the member organization's quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the member organization for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the member organization is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the member organization's quote, as opposed to those circumstances in which the member organization is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

**Section 12. Reserved****Section 13. Reserved****Section 14. Reserved****Section 15. Reserved****Section 16. Reserved****Section 17. Reserved****Section 18. Reserved****Section 19. Discretionary Power as to Customers' Accounts**

Member organizations shall comply with NASD Rule 2510 as if such rule were part of the Exchange Rules.

**Section 20. Supervision**

(a) General—Each office, location, department, business activity, trading system and internal surveillance system of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of an appropriately qualified supervisor, as described in (c) below.

Each member or member organization and registered representative, employee, and associated person of a member or member organization shall be under the supervision and control of an appropriately qualified supervisor, as described in (c) below.

For the purposes of this Rule, individuals engaged in acting as back-up Lead Market Maker unit will be considered to be engaged in a business activity for the Lead Market Maker unit they are assisting pursuant to Options 2, Section 11(b)(4).

(b) Designation of Supervisor by Member Organizations—The general partners or directors of each member organization shall provide for appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations, including the By-Laws and Rules of the Exchange. The designated person shall:

- (1) Delegate to qualified principals or qualified employees responsibility and authority for supervision and control of each office, location, department, business activity, trading system and internal surveillance system (including foreign incorporated branch offices), and provide for appropriate written procedures of supervision and control; and
- (2) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.



(c) Qualification of Supervisor—Each member or member organization must make reasonable efforts to determine that each person with supervisory control, as described in paragraphs (a) and (b) above, is qualified by virtue of experience or training to carry out his or her assigned responsibilities. Each person with supervisory control, as described in paragraphs (a) and (b) above, must meet the Exchange's qualification requirements for supervisors, including successful completion of the appropriate examination.

(d) Standards for Supervision—Each person with supervisory control, as described in paragraphs (a) and (b) above, shall reasonably discharge his duties and obligations in connection with such supervision and control to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

(e) Interviews or Meetings and Reviews of Business—At least annually, each member or member organization for which the Exchange is the Designated Examining Authority ("DEA") shall:

(1) Conduct an interview or meeting with all registered representatives, employees, or associated persons, at which compliance matters relevant to the activities of the registered representatives, employees, or associated persons are discussed; and

(2) Conduct a review of the business(es) in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

Each member or member organization shall retain a written record of the dates upon which each interview or meeting and review of business occurred, the participants in the interview or meeting, and the results thereof.

(f) Branch Offices—Each member organization for which the Exchange is the Designated Examining Authority ("DEA") shall file with the Exchange a list identifying each of its branch offices by completing a Branch Office Disclosure Form and submitting the Form to the Exchange's Membership Department. Member organizations for which the Exchange is the DEA shall file amendments to the Branch Office Disclosure Form with the Exchange no later than thirty (30) days from the date of any change to the information in the Form. Member organizations for which the Exchange is the DEA shall provide information about its branch offices, including, but not limited to: location, designated supervisor, contact information, number of traders at the location and type of activity conducted at the branch office.

(g) Office Inspections—Each member or member organization for which the Exchange is the DEA shall inspect each office or location (including foreign incorporated branch offices) of the member or member organization according to a cycle that shall be established in its written supervisory procedures. An inspection may not be conducted by any person within that office or location who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). In establishing such inspection cycle, the member or member organization shall give consideration to the nature and complexity of the securities activities for which the office or location is responsible, the volume of business done, and the number of

registered representatives, employees, and associated persons at each office or location. The inspection schedule and an explanation of the factors considered in determining the frequency of the inspections in the cycle shall be set forth in the member's or member organization's written supervisory procedures. The inspection shall be reasonably designed to assist in preventing and detecting violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules.

Each member or member organization shall retain a written record of the dates upon which each inspection is conducted, the participants in the inspection, and the results thereof.

(h) *Written Supervisory Procedures*—Each member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

The written supervisory procedures shall set forth the supervisory system established by the member or member organization and shall include the name, title, registration status, and location of all supervisory personnel required by this rule, the dates for which supervisory designations were or are effective, and the responsibilities of supervisory personnel as these relate to the types of business(es) the member or member organization engages in, and securities laws and regulations, including the By-Laws and Rules of the Exchange. This record must be preserved for a period of not less than three years, the first two in an easily accessible place.

A copy of the written supervisory procedures shall be kept and maintained at each location where supervisory activities are conducted on behalf of the member or member organization. Each member or member organization shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, Exchange rules, supervisory personnel or supervisory procedures. Each member or member organization shall be responsible for communicating such changes throughout its organization within a reasonable time.

### **Section 21. Supervisory Procedures Relating to ITSFEA and to Prevention of Misuse of Material Nonpublic Information**

(a) Member organizations must maintain written supervisory procedures as required by the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA). Such procedures must be reasonably designed to prevent the misuse of material, non-public information by employees.

(b) In addition to the requirements under ITSFEA, the Exchange herein institutes basic minimum standards for incorporation into ITSFEA related written supervisory procedures for all member organizations. The requirements enumerated below must be included and, together with all related additional written supervisory procedures maintained in accordance with paragraph (a) above, must receive approval by the Exchange. These requirements are not intended to

supersede, or be presumed to fulfill, the requirements of ITSFEA. These requirements are instead set forth as separate requirements of the Exchange.

In the instance where a member organization is subject to written supervisory procedures relating to ITSFEA, imposed by another self regulatory organization which is its designated examining authority ("DEA") the Exchange requirements set forth in paragraph (b) of this Rule will not apply.

(1) Each new employee of the organization shall be furnished with a copy of the most current version of the Exchange's "Notice of Insider Trading" (Notice), or a document substantially similar to the Notice approved by the DEA for use in this connection. Within ten business days from the first date of employment with the unit, each new employee must sign and return the Notice to the employer. By his signature on the Notice, the employee attests to having carefully read the Notice and agrees to appropriately supply the employer firm with all trading accounts for which such person maintains a beneficial interest, including all personal and household accounts of the employee. Also, by his signature on the Notice, each new employee ensures that delivery of all related account statements will be made directly from the firm(s) maintaining the account to the employer.

(2) Each organization must complete the Exchange's "ITSFEA Accounts List", comprising all accounts submitted in connection with paragraph (1) above and all proprietary accounts of the unit. Updates to the list must be made within one month of any change and each completed version of the list must be maintained for no less than three years by the organization.

(3) Each month a supervisory person of the organization is required to make a reasonable review of all activities from the account statements of those accounts reflected on the ITSFEA Accounts List with a view toward identifying the possible misuse of material non-public information. A report must be made promptly to the Exchange's Regulatory staff in the event that any such unusual profits are so identified.

(c) For purposes of paragraph (b) of this Rule, an employee shall include every person who is compensated directly or indirectly by the member organization for the solicitation or handling of business in securities, including trading securities for the account of the member organization, whether such securities are those dealt in on the Exchange or those dealt over-the-counter.

(d) Every member or member organization shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the member's business, to prevent the misuse of material nonpublic information by such member or persons associated with such member in violation of the Exchange Act and the rules thereunder and the Exchange's own Rules. For purposes of this paragraph, misuse of material nonpublic information means:

(a) trading in any securities issued by a corporation, partnership, Portfolio Depository Receipts, Index Fund Shares, trust issued receipts, currency trust shares or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of material nonpublic information concerning that corporation, Portfolio Depository Receipt, Index Fund Share, trust issued receipts, currency trust shares, trust or similar entity;

(b) trading in an underlying security or related options or other derivative securities, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of material nonpublic information concerning imminent transactions in the above; and

(c) disclosing to another person any material nonpublic information involving a corporation, partnership, Portfolio Depository Receipts, Index Fund Shares, trust issued receipts, currency trust shares or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, for the purpose of facilitating the possible misuse of such material nonpublic information.

#### **Section 22. Reserved**

#### **Section 23. Reserved**

#### **Section 24. Reserved**

#### **Section 25. Accounts of Employees of Member Organizations**

No member organization shall take or carry an account or make a transaction in which an employee of any member organization is directly or indirectly interested, unless the written consent of the employer member organization has first been obtained. Where such prior consent is obtained, duplicate reports and monthly statements of all transactions shall be sent to the employer. The employee is also responsible for arranging duplicate reports and monthly statements of all transactions to be sent to the employer where a trading account is with a non-member of the Exchange.

#### **Section 26. Reserved**

#### **Section 27. Reserved**

#### **Section 28. Reserved**

#### **Section 29. Transactions for Employees and Speculative Transactions for Employees of Certain Employers**

(a) No member organization shall take or carry an account or make a transaction in which an employee of the Exchange, or of any corporation of which the Exchange owns a majority of the capital stock, or of any other member or member organization, is directly or indirectly interested, without the prior written consent of the employer.

(b) No member organization shall, without the prior written consent of the employer, take or carry a speculative account or make a speculative transaction in which an employee of a bank, trust company, insurance company, or of any corporation, association, firm or individual engaged in the business of dealing, either as broker or as principal, in stocks, bonds, or other securities in any form, bills of exchange, acceptances, or other forms of commercial paper, is directly or indirectly interested.

### **Section 30. Reserved**

### **Section 31. Reserved**

### **Section 32. Reserved**

### **Section 33. Reserved**

### **Section 34. Reserved**

### **Section 35. Nonregistered Foreign Finders**

(a) Member organizations, and persons associated with a member organization, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations if the following conditions are met:

(1) the member organization has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

(2) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;

(3) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;

(4) customers receive a descriptive document, similar to that required by Rule 206(4)-3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;

(5) customers provide written acknowledgment to the member organization of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;

(6) records reflecting payments to finders are maintained on the member organization's books and actual agreements between the member organization and persons compensated are available for inspection by the Exchange; and

(7) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

### **Section 36. Reserved**

### **Section 37. Reserved**

### **Section 38. Reserved**

### **Section 39. Fidelity Bonds**

#### **(a) General Provision**

(1) Each member and member organization required to join the Securities Investor Protection Corporation shall maintain blanket fidelity bond coverage which provides against loss and has Insuring Agreements covering at least the following:

(A) Fidelity;

(B) On Premises;

(C) In Transit;

(D) Forgery and Alteration;

(E) Securities; and

(F) Counterfeit Currency.

(2) The fidelity bond must include a cancellation rider providing that the insurance carrier will use its best efforts to promptly notify the Exchange in the event the bond is cancelled, terminated or substantially modified.

(3) A member or member organization's fidelity bond must provide for per loss coverage without an aggregate limit of liability.

#### **(b) Minimum Required Coverage**

(1) A member or member organization with a net capital requirement of less than \$250,000 must maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule of the greater of (A) 120% of the member or member organization's required net capital under SEC Rule 15c3-1 or (B) \$100,000. A member or member organization with a net capital requirement of \$250,000 or more must

maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule in accordance with the following table:

<u>Net Capital Requirement under SEA Rule 15c3-1</u>	<u>Minimum Coverage</u>
<u>250,000 - 300,000</u>	<u>600,000</u>
<u>300,001 - 500,000</u>	<u>700,000</u>
<u>500,001 - 1,000,000</u>	<u>800,000</u>
<u>1,000,001 - 2,000,000</u>	<u>1,000,000</u>
<u>2,000,001 - 3,000,000</u>	<u>1,500,000</u>
<u>3,000,001 - 4,000,000</u>	<u>2,000,000</u>
<u>4,000,001 - 6,000,000</u>	<u>3,000,000</u>
<u>6,000,001 - 12,000,000</u>	<u>4,000,000</u>
<u>12,000,001 and above</u>	<u>5,000,000</u>

(2) At a minimum, a member or member organization must maintain fidelity bond coverage for any person associated with the member or member organization, except directors or trustees who are not performing acts within the scope of the usual duties of an officer or employee.

(3) Any defense costs for covered losses must be in addition to the minimum coverage requirements as set forth in paragraph (b)(1) of this Rule.

(c) Deductible Provision

A provision may be included in a fidelity bond to provide for a deductible of up to 25% of the coverage purchased by a member or member organization. Any deductible amount elected by the member or member organization that is greater than 10% of the coverage purchased by the member or member organization must be deducted from the member or member organization's net worth in the calculation of its net capital for purposes of SEC Rule 15c3-1. If the member or member organization is a subsidiary of another Exchange member, or member organization this amount may be deducted from the parent's rather than the subsidiary's net worth, but only if the parent guarantees the subsidiary's net capital in writing.

(d) Annual Review of Coverage

(1) A member or member organization, including a member or member organization that signs a multi-year insurance policy, shall, annually as of the yearly anniversary date of the issuance of the fidelity bond, review the adequacy of its coverage and make any required adjustments, as set forth in paragraphs (d)(2) and (d)(3) of this Rule.

(2) A member or member organization's highest net capital requirement during the preceding 12-month period, based on the applicable method of computing net capital (dollar minimum, aggregate indebtedness or alternative standard), shall be used as the basis for determining the member's or member organization's required minimum fidelity bond coverage for the succeeding 12-month period. For the purpose of this paragraph, the "preceding 12-month period" shall include the 12-month period that ends 60 days before the yearly anniversary date of a member's or member organization's fidelity bond.

(3) A member or member organizations that has only been in business for one year and elected the aggregate indebtedness ratio for calculating its net capital requirement may use, solely for the purpose of determining the adequacy of its fidelity bond coverage for its second year, the 15 to 1 ratio of aggregate indebtedness to net capital in lieu of the 8 to 1 ratio (required for broker-dealers in their first year of business) to calculate its net capital requirement. Notwithstanding the above, such member or member organization shall not carry less minimum bonding coverage in its second year than it carried in its first year.

(e) Notification of Change

A member or member organization shall immediately advise the Exchange in writing if its fidelity bond is cancelled, terminated or substantially modified.

(f) Exemptions

(1) The requirements of this Rule shall not apply to:

(A) member or member organizations that maintain a fidelity bond as required by another national securities exchange or FINRA, registered with the SEC under Section 6 of the Exchange Act, provided that the member or member organization is in good standing with such national securities exchange and the fidelity bond requirements of such exchange are equal to or greater than the requirements of this Rule; and

(B) member or member organizations whose business is solely that of a Market Maker, Lead Market Maker or Floor Broker who does not conduct business with the public.

Supplementary Material to General 9, Section 39

.01 Definitions. For purposes of this Rule, the term "substantially modified" shall mean any change in the type or amount of fidelity bonding coverage, or in the exclusions to which the bond is subject, or any other change in the bond such that it no longer complies with the requirements of this Rule.

.02 Alternative Coverage. A member or member organization that does not qualify for blanket fidelity bond coverage as required by paragraph (a)(3) of this Rule shall maintain substantially similar fidelity bond coverage in compliance with all other provisions of this Rule, provided that the member or member organization maintains written correspondence from two insurance



providers stating that the member or member organization does not qualify for the coverage required by paragraph (a)(3) of this Rule. The member or member organization must retain such correspondence for the period specified by SEC Rule 17a-4(b)(4).

**Section 40. Reserved**

**Section 41. Reserved**

**Section 42. Reserved**

**Section 43. Reserved**

**Section 44. Reserved**

**Section 45. Reserved**

**Section 46. Reserved**

**Section 47. Reserved**

**Section 48. Reserved**

**Section 49. Reserved**

**Section 50. Reserved**

**Section 51. Reserved**

**Section 52. Reserved**

**Section 53. Disruptive Quoting and Trading Activity Prohibited**

(a) No member or member organization shall engage in or facilitate disruptive quoting and trading activity on the Exchange, as described in subsections (i) and (ii) of this Rule, including acting in concert with other persons to effect such activity.

(1) For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the following facts are present:

(A) Disruptive Quoting and Trading Activity Type 1:

(i) a party enters multiple Limit Orders on one side of the market at various price levels (the "Displayed Orders"); and

(ii) following the entry of the Displayed Orders, the level of supply and demand for the security changes; and

(iii) the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed; and

(iv) following the execution of the Contra-Side Orders, the party cancels the Displayed Orders.

(B) Disruptive Quoting and Trading Activity Type 2:

(i) a party narrows the spread for a security by placing an order inside the NBBO; and

(ii) the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in paragraph (b)(i).

(2) Applicability. For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the facts listed above are present. Unless otherwise indicated, the order of the events indicating the pattern does not modify the applicability of the Rule. Further, disruptive quoting and trading activity includes a pattern or practice in which the quoting and trading activity is conducted on the Exchange as well as a pattern or practice in which some portion of the quoting or trading activity is conducted on the Exchange and the other portions of the quoting or trading activity are conducted on one or more other exchanges.

**Section 54. Guarantees Not Permitted**

(a) No branch office manager of any member organization, no employee of any member organization engaged in trading in securities for the organization, and no securities salesman of any member organization, shall guarantee the payment of the debit balance, in a customer's account, to his employer or to any other creditor carrying such account, without the prior written consent of the Chief Regulatory Officer.

(b) No branch office manager of any member organization, no employee of any member organization engaged in trading in securities for the organization, and no securities salesman of any member organization, shall guarantee any customer against losses in his account, or in any way represent to any customer that he or his employer will guarantee the customer against such losses.

**Section 55. Office, Other Than Main Offices**

No office of a member or member organization for which the Exchange is the Designated Examining Authority shall be established without the prior notification of the Membership Department of the Exchange. Each such office must be in charge of a partner, a voting stockholder or a manager and shall be subject to such Rules as the Exchange may prescribe.

**Section 56. Status Verification**

Upon the request of any member or member organization, the Membership Department of the Exchange shall provide such member or member organization (as applicable) with reasonable written verification of its status as a member or member organization.

### **Section 57. Control of Offices**

Each office of a member or member organization shall be under the control of the member or member organization and shall not be occupied jointly with any non-member; provided, however, that upon application, the Exchange may waive this requirement if the Exchange is satisfied that under the circumstances the public is not likely to be misled. To the extent the offices of a member or member organization are used for activities other than the conduct of a securities business, customers must be informed that those other activities are not subject to regulation or oversight by the Exchange or the SEC.

### **Section 58. Advertisements, Market Letters, Research Reports and Sales Literature**

(a) Nasdaq PHLX members and persons associated with a member shall comply with FINRA Rule 2210 (except FINRA Rule 2210(c)) as if such Rule were part of Nasdaq PHLX's Rules. Nasdaq PHLX and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of Nasdaq PHLX. Therefore, Nasdaq PHLX members are complying with this Rule by complying with FINRA Rule 2210 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under this Rule are being performed by FINRA on Nasdaq's behalf.

#### **••• Supplementary Material: -----**

The Exchange has adopted the following policy regarding advertising, market letters, research reports, telemarketing scripts and sales literature:

The requirement for three-year retention of such material applies only to members and member organizations which prepared it for distribution.

The term "advertisement" refers to any material for use in any newspaper or magazine or other public medium or by radio, telephone recording or television.

The term "market letter" refers to any publication, printed or processed, which comments on the securities market or individual securities and is prepared for general distribution to the organization's customers or to the public. It also includes material on investment subjects prepared by a member or personnel of a member organization for publication in newspapers and periodicals.

The term "research report" refers to printed or processed analysis covering individual companies or industries.

The term "sales literature" refers to printed or processed material interpreting the facilities offered by a member organization or its personnel to the public, discussing the place of investment in an individual's financial planning, or calling attention to any market letter, research report or sales literature, which is prepared for and given general distribution.

## **SUPPLEMENTARY INFORMATION REGARDING RULE 605**

### **Standards for Advertising, Market Letters, Sales Literature, Research Reports, Telemarketing Scripts, Radio, Television and Writing Activities**

Truthfulness and good taste are the traditional standards of the Exchange community in any form of communication with the public. Rules can never take the place of good judgment in such communications. Under some circumstances what is left out may be just as important as what is included.

Member organizations, of course, can never overlook basic characteristics of investments—that prices can go down as well as up; that dividends can be cut, omitted or increased; that there is some degree of risk in any security; that investments can not be depended upon to produce a certain return in terms of purchasing power or in dollars.

Some of the guideposts established by the Exchange for written communications with the public include:

**.01 Recommendations.**—A recommendation (even though not labeled as a recommendation) must have a basis which can be substantiated as reasonable.

When recommending the purchase, sale or switch of specific securities, supporting information should be provided or offered.

The market price at the time the recommendation is made must be shown.

**.02 Disclosure.**—When market letters, sales literature or research reports recommend the purchase or sale of a specific security, member organizations must disclose the following information, if such conditions exist:

- (a) That the firm usually makes a market in the issue being recommended.
- (b) That the member organization or its partners hold options in any securities of the recommended issuer.

- (c) That some or all of the recommended securities are to be sold to or bought from customers on a principal basis by the member organization or its partners (unless covered by (a) above).
- (d) That the member organization was manager or co-manager of the most recent public offering (within 3 years) of any securities of the recommended issuer.

It has been the experience of some firms that disclosure of directorates or other insider relationships is a good way of avoiding difficulties in this area. When such disclosure is made, however, the firm should be careful to avoid exploiting these relationships by implying that the recommendation is based directly or indirectly on privileged information.

**.03 Past Recommendations.**—Material promoting past records of research recommendations, in connection with purchases or sales, is acceptable if it covers all of the following:

- (a) At least a 1-year period.
- (b) A list of all of the issues in a specific "universe"—or clearly definable area which can be fully isolated and circumscribed—recommended during the period. The list may be given or offered.
- (c) The date and price of each recommendation at the recommendation date and at the end of the period or when sale was suggested, whichever is earlier.
- (d) The number of issues recommended, the number that advanced and the number that declined, in the event a list is offered but not included in the material.

It must be made clear that—

- (1) There is no implication in any such published record of comparable future performance or that a customer can't lose by following the firm's recommendations.
- (2) The period covered was one of a generally rising market, if such is the case.
- (3) If a record is averaged, or otherwise summarized, such results would have been obtained only if each issue had been purchased when recommended and then sold at the end of the period covered or when sale was recommended. The purchase price of a given number of shares—such as a round lot—of each of the recommended securities must be shown. Commissions must be mentioned.

If such a record is started and published, and publication is subsequently discontinued for any reason, resumption will be permitted only when the intervening period is included in the published record.

A file of all the original recommendations on which the record is based must be kept by the firm and be available to the Exchange on request for three years.

A statement in a market letter, for example, that a particular security was recommended at a specific price and is now selling at a higher price is unacceptable if the intent or the effect is to show the success of a past recommendation. In such a case, all of the above qualifications would have to be met.

**.04 Testimonials.**—In using testimonials, the following points must be clearly stated in the body copy of the material:

- (a) The testimonial may not be representative of the experience of other clients.
- (b) The testimonial can not be indicative of future performance or success.
- (c) If more than a nominal sum is paid, the fact that it is paid testimonial must be indicated.
- (d) If the testimonial concerns a technical aspect of investing, the person making the testimonial must have adequate knowledge and experience to form valid opinion.

**.05 Projections and Predictions.**—Past records, charts, tables or other material can not, of course, be used to promise future profits or income from securities.

Projections and predictions should be clearly labeled as estimates. A reference to the bases of the estimates should be given or must be available on request.

**.06 Periodic Investment.**—In mentioning the benefit of dollar-cost-averaging, it should be made clear that periodic purchases in a fixed dollar amount must be continued through fluctuations in the market price, that such a plan does not protect against loss in a declining market, and that the price at which the shares are sold must be more than their average cost, in order to realize a profit.

If the low cost of buying securities under any periodic investment plan is emphasized, it is important to state whether there are commissions for the purchase and sale.

In showing total value of prior investments including reinvested dividends, the amount of the reinvested dividends should be stated separately. Commissions, taxes or other costs should also be mentioned.

.07 Language.—Statements which are promissory, exaggerated, flamboyant or contain unwarranted superlatives are to be avoided.

.08 Comparisons.—Any comparison of one firm's service, personnel facilities or charges with those of other firms must be factually supportable.

.09 Claims for Research.—For purposes of these standards, investment research encompasses the organized collection and analysis of information obtained in oral or written form from primary or secondary sources, which is concerned with securities, industries, the market or the economy in general and has the purpose of assisting member organizations and their customers in evaluating securities.

A member organization which advertises or promotes its research services or capabilities must have a reasonable basis for any claims it makes.

A market letter, research report or similar publication should not carry a research department by-line, or by implication give the impression of originating within a research department, unless it did originate there.

.10 Dating Reports.—All market letters, research reports and similar publications must be appropriately dated. Any significant information that is not reasonably current (usually not more than 6 months old—depending on the industry and circumstances) should be noted.

.11 Identification of Sources.—A market letter or research report not prepared under the direct supervision of the research department of the distributing firm or its correspondent member organization should show the person (by name and appropriate title) or outside organization which prepared the material.

In distributing market letters or research reports prepared under the direct supervision of the research department of a correspondent member organization, the distributing firm should mention this fact, although it may not be necessary to identify the correspondent by name.

Releases prepared and published by or for a corporate issuer or its public relations counsel and distributed by member organizations should be clearly identified as such.

.12 Portfolio Analysis.—Portfolio Analysis is defined as the appraisal of an investor's present holdings of securities, individually and collectively, for the purpose of offering investment recommendations consistent with his stated objectives and general financial status.

Persons engaged in Portfolio Analysis should be adequately supervised and they should not undertake analysis which is not commensurate with their experience and training.

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### **Section 59. Notification of Changes in Business Operations**

Any member or member organization for which the Exchange is the Designated Examining Authority ("DEA") shall provide prior written notification to the Exchange of any change in the business operations of such member or member organization which would cause the member or member organization to be subject to additional or modified net capital requirements, examination schedules or other registration, examination or regulatory requirements.

For the purpose of this Rule, the appropriate time frame for notification is at least 10 business days prior to the change in business operations.

### **Section 60. Training**

All members and persons employed by or associated with such member or a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the Trading Floor.

### **Section 61. Assignment of Interest of Partner**

No partner in a member organization that is a partnership shall assign or in any way encumber his interest in such partnership without the prior approval of the Membership Department.

### **Section 62. Partial Payments**

No member organization shall make an arrangement for the purchase of securities for the account of a customer, to be paid for by the customer on installments or by a series of partial payments, under which the charge for purchasing and carrying any such securities is unreasonable.

### **Section 63. Diligence as to Accounts**

Every member is required either personally or through a general partner or an officer who is a holder of voting stock in his organization to use due diligence to learn the essential facts relative to every customer and to every order or account accepted by his organization.

### **Section 64. Approval of Accounts**

No member organization shall make any brokerage transactions for the account of a customer unless, prior to the completion thereof, a general partner or an officer who is a holder of voting stock in such organization shall have specifically approved the opening of such account, provided, however, that in the case of branch offices the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office



manager shall within a reasonable time be approved by a general partner or an officer who is a holder of voting stock in such organization. The member, general partner or officer approving the opening of an account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which will become part of the records of his office or organization.

#### **Section 65. Statements to Be Sent to Customers**

No member organization shall address confirmations, statements or other communications to a customer of such organization in care of any employee of such organization, or address such confirmations, statements or other communications to such a customer in his or its own care or in care of any other member or member organization, unless (1) such organization shall have been so directed in writing by such customer, and (2) duplicate copies of such confirmations, statements, and other communications are addressed to such customer (except when this requirement is waived by the Exchange) at his place of business or residence or at some other address designated in writing by such customer.

#### **Section 66. Notwithstanding Power of Attorney**

When a non-member customer has given a power of attorney to a member or to a partner of a member or to any other person all confirmations, statements, and other communications with respect to the account of such customer shall be addressed to such customer (except when this requirement is waived by the Exchange) at his place of business or residence or some other address designated in writing by such customer, even if duplicate copies are sent to the person holding the power of attorney.

#### **Section 67. Participation in Joint Accounts**

(a) No member, member organization, or partner or stockholder therein, shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling any security on the Exchange, unless such joint account is reported to and not disapproved by the Exchange.

(b) Such report shall be filed with the Exchange by any member, member organization, or partner or stockholder therein, participating in such joint account before any transactions are effected on the Exchange for such joint account and shall include in substance the following:

- (1) Names of persons participating in such account and their respective interest therein.
- (2) Purpose of such account.
- (3) Amount of commitments in such account.
- (4) A copy of any written agreement or instrument in writing relating to such account.

(c) Every member, member organization, or partner or stockholder therein, who is directly or indirectly interested in any substantial joint account for buying or selling any specific security on the Exchange or in any joint account which actively trades in any security on the Exchange, shall

file with the Exchange not later than Monday of each week with respect to every such joint account existing at the close of business on the preceding Wednesday a report containing in substance the following information, unless such information is reported to the Exchange by some other member, member organization or participant therein:

(1) Name and amount of each security purchased or sold during the week ending on such Wednesday on the Exchange.

(2) Amount of commitments in such account at the close of business on such Wednesday.

(3) Any change which renders no longer accurate any portion of the original statement filed.

(d) Every member, member organization, or partner or stockholder therein, who has knowledge of any substantial joint account for buying or selling any specific security on the Exchange or of any joint account which actively trades in any security on the Exchange by reason of transactions executed by or through such member or member organization, for such account, shall file with the Exchange not later than Monday of each week with respect to every such joint account existing at the close of business on the preceding Wednesday a report containing in substance the following information, if known, unless such information has previously been reported to the Exchange:

(1) Names of persons participating in such account and their respective interest therein.

(2) Purpose of such account.

(3) Name and amount of each security purchased or sold during the week ending on such Wednesday.

(4) Amount of commitments in such account at the close of business on such Wednesday.

(e) In the event the requirements hereof should be applicable to a security also dealt in on another national securities exchange having requirements substantially equivalent hereto and a member or member organization, or partner or shareholder therein, is a member or member organization of such other exchange and complies with such requirements of such other exchange, then such member or member organization, or partner or shareholder therein, need not comply with the reporting provisions hereof.

### **Section 68. Report of Options**

Each member and member organization shall report to the Exchange such information as may be required with respect to any substantial option relating to listed securities, or securities admitted to unlisted trading privileges on the Exchange, in which such member, member organization or partner or stockholder therein is directly or indirectly interested or of which such member, member organization or partner or stockholder has knowledge by reason of transactions executed by or through such member or organization; provided that this Rule shall not apply to an option

which is a matter of record in a prospectus or registration statement filed with the Exchange, or with the SEC.

The Exchange may disapprove of the connection of any member, member organization or partner or stockholder therein with any such option which it shall determine to be contrary to the best interest or welfare of the Exchange, or to be likely to create prices which will not fairly reflect market values.

### **Section 69. Periodic Reports**

Member organizations shall submit, as required by the Exchange, periodic reports with respect to short positions in securities.

(a) *Short Positions*—Member organizations for which the Exchange is the designated examining authority ("DEA") are required to report short positions, including odd-lots, in each stock or warrant traded on the Exchange, and in each other stock or warrant not traded on the Exchange for which short positions are not otherwise reported to another United States securities exchange or association, using such automated format and methods as prescribed by the Exchange. Such reports must include customer and proprietary positions and must be made at such times and covering such time period as may be designated by the Exchange. Member organizations whose short positions have properly been reported to, and are carried by, a non-member clearing organization will be in compliance with this rule if adequate arrangements have been made providing for the clearing organization to properly report such positions to the Exchange or to another United States securities exchange or association.

(1) "Short" positions to be reported are those resulting from "short" sales as defined in SEC Rule 200(a) of Regulation SHO, but excluding sales that meet an exception in paragraph (b) below. Also, to be excluded are "short" positions carried for other members and member organizations reporting for themselves.

(2) Only one report should be made for each stock or warrant for which there is a short position, if more than one "account" has a short position in the same stock or warrant, the combined aggregate should be reported.

(3) Member organizations for which the Exchange is not the DEA must report short positions to its DEA if such DEA has a requirement for such reports. If the DEA does not have such a reporting requirement, then such member organization must comply with the provisions of this rule.

### **(b) Exceptions**

(1) Any sale by any person, for an account in which he has an interest, if such person owns the security sold and intends to deliver such security as soon as is possible without undue inconvenience or expense.

(2) Any sale of a security covered by a short sale rule on a national securities exchange (except a sale to a stabilizing bid complying with Rule 104 of

Regulation M) effected with the approval of such exchange which is necessary to equalize the price of such security thereon with the current price of such security on another national securities exchange which is the principal exchange market for such security.

(3) Any sale of a security for a special arbitrage account by a person who then owns another security by virtue of which he is, or presently will be, entitled to acquire an equivalent number of securities of the same class as the securities sold; provided such sale, or the purchase which such sale offsets, is effected for the bona fide purpose of profiting from a current difference between the price of security sold and the security owned and that such right of acquisition was originally attached to or represented by another security or was issued to all the holders of any such class of securities of the issuer.

(4) Any sale of a security registered on, or admitted to unlisted trading privileges on, a national securities exchange effected for a special international arbitrage account for the bona fide purpose of profiting from a current difference between the price of such security on a securities market not within or subject to the jurisdiction of the United States and on a securities market subject to the jurisdiction of the United States; provided the seller at the time of such sale knows or, by virtue of information currently received, has reasonable grounds to believe that an offer enabling him to cover such sale is then available to him such foreign securities market and intends to accept such offer immediately.

(5) Any sale by an underwriter, or any member of a syndicate or group participating in the distribution of a security, in connection with an over-allotment of securities, or any lay-off sale by such a person in connection with a distribution of securities through rights or a standby underwriting commitment.

### **Section 70. Underwriting of Securities by Member Organizations**

Member organizations shall submit, as required by the Exchange periodic reports with respect to obligations in respect of security underwritings and net positions resulting therefrom.

\* \* \* \* \*

**Equity 2 [Equity Trading Rules] Equity Market Participants**

**Equity 3 [Equity Market Participants] Equity Trading Rules**

**Equity 4 [Equity Listing Rules] Limit Up-Limit Down**

\* \* \* \* \*

**Equity 6 [Limit Up-Limit Down] Reserved**

## Equity 7 Pricing Schedule

\* \* \* \* \*

### **Section 12. Covered Sales Fee**

(a) Under Section 31 of the Exchange Act, the Exchange must pay certain fees to the SEC. To help fund the Exchange's obligations to the Commission under Section 31, a Covered Sale Fee is assessed by the Exchange to members and member organizations. To the extent there may be any excess monies collected under this Rule, the Exchange may retain those monies to help fund its general operating expenses.

(b) Each member and member organization engaged in executing sale transactions on the Exchange or executing transactions on another exchange or on a Participant in FINRA's Alternative Display Facility ("ADF Participant"), which were routed through the Exchange's Routing Facility, as defined in Options 5, Section 4(a)(ii)(A) during any computational period shall pay a Covered Sale Fee equal to (i) the Section 31 fee rate multiplied by (ii) the member's aggregate dollar amount of covered sales.

(c) A Covered Sale Fee is assessed by the Exchange to each member for sales of securities in the following circumstances:

(i) When a sale in equity securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.

(ii) When a sale in option securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.

(iii) When a sell order in option securities is routed for execution at a market other than the Exchange's options market, resulting in a covered sale on that market and an obligation of the Exchange's Routing Facility to pay the related sales fee of that market.

(d) The Covered Sale Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of the Exchange.

\* \* \* \* \*

[Equity 11 Reserved]

\* \* \* \* \*

## Options Rules

### **Options 1 [Options Definitions]General Provisions**

#### **Section 1. Applicability, Definitions and References**

(a) **Applicability.** The Rules in Options 1 Part shall be applicable to the trading on the Exchange in option contracts issued by The Options Clearing Corporation, the terms and conditions of such

contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific Rules in this Part govern or unless the context otherwise requires, the provisions of the By-Laws and of all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of option contracts.

(b) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified:

(1) The term "**account number**" means a number assigned to a member organization. Member organizations may have more than one account number.

(2) The term "**aggregate exercise price**" means the exercise price of an option contract multiplied by the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by such option contract.

(3) The term "**American Option**" or "**American Style Option**" mean an option contract that may be exercised at any time from its commencement until its expiration.

(4) The term "**Approved person**" means an individual or corporation, partnership or other entity which controls a member or member organization, or which is engaged in the securities business and either controlled by or under common control with a member or member organization.

(5) The term "**Away Best Bid or Offer**" or "**ABBO**" mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer.

(6) The term "**badge**" means an account number, which may contain letters and/or numbers, assigned to Lead Market Makers and Market Makers. A Lead Market Maker or Market Maker account may be associated with multiple badges.

(7) The term "**bid**" means a quote or limit order to buy one or more options contracts.

(8) The term "**call**" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by the option contract.

(9) The term "**class of options**" means all option contracts of the same type of option covering the same underlying stock or Exchange-Traded Fund Share (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency).

(10) The term "**Clearing Member**" means a member organization which has been admitted to membership in The Options Clearing Corporation pursuant to the provisions of the rules of The Options Clearing Corporation.

(11) The term "**closing purchase transaction**" means an Exchange options transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

(12) The term "**closing sale transaction**" means an Exchange options transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

(13) The term "**covered**" in respect of a short position in a call option contract on a stock means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of rule 610(f) or 610(h), respectively, of the rules of The Options Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying stock or Exchange-Traded Fund Share, or in an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a call option contract on a foreign currency means that the writer's obligation is secured in any of the ways set forth in subparagraphs (H)(i), (H)(ii) or (H)(iii) of Rule 722 of the rules of The Options Clearing Corporation or the writer holds in the same account as the short position, on a unit-for-unit basis, a long position in an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position.

(13A) The term "**covered**" in respect of a short position in a put option contract on a stock means that the writer holds in the same account as the short position on a share-for-share basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract on a foreign currency means that the writer's obligation is secured in the manner set forth in subparagraphs (H)(iv) or (H)(v) of Rule 722 of the rules of The Options Clearing Corporation or that the writer holds in the same account as the short position on a unit-for-unit basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

(14) The term "**currency index group**" means a group of currencies each of whose inclusion and relative representation in the group is determined by its inclusion and relative representation in a currency index.

(15) The term "**European Option**" or "**European Style Option**" mean an option contract that can be exercised only on the day it expires.

(16) The term "**Exchange options transaction**" means a transaction effected on the Exchange between members for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.

(17) The term "**Exchange Spot Price**" in respect of an option contract on a foreign currency means the cash market spot price, for the sale of one foreign currency for another, quoted by various foreign exchange participants for the sale of a single unit of such foreign currency for immediate delivery that is calculated from the foreign currency price quotation reported by the foreign currency price quotation dissemination system selected by the Exchange, to which an appropriate multiplier is applied. The multiplier(s) will be: 100 for the British pound, the Euro, the Swiss Franc, the Canadian dollar, the Australian dollar, the Brazilian real, and the New Zealand dollar; 1,000 for the Chinese yuan, the Danish krone, the Mexican peso, the Norwegian krone, the South African rand, and the Swedish krona; 10,000 for the Japanese yen and the Russian ruble; and 100,000 for the South Korean won.

(18) The term "**Exchange-Traded Fund Share**" shall have the meaning assigned to it in Options 4, Section 3, Supplementary Material .06.

(19) The term "**exercise strike price**" in respect of an option contract means the stated price per share at which the underlying stock or Exchange-Traded Fund Share may be purchased (in the case of a call option on a stock or Exchange-Traded Fund Share) or sold (in the case of a put option on a stock or Exchange-Traded Fund Share) or the stated price per unit at which the underlying foreign currency may be purchased (in the case of a call option on a foreign currency) or sold (in the case of a put option on a foreign currency), or, in the case of U.S. dollar-settled foreign currency option contracts, the stated price per unit which determines the differential received upon the exercise of such option contract.

(20) The term "**expiration date**" in the case of options on stocks or Exchange-Traded Fund Shares, is (i) in the case of such an option expiring prior to February 1, 2015, 11:59 p.m. Eastern Time, the Saturday immediately following the third Friday of the expiration month of such option contract and (ii) in the case of such an option expiring on or after February 1, 2015, 11:59 p.m. Eastern Time, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which such Exchange is open for business. Notwithstanding the foregoing, in the case of certain options expiring on or after February 1, 2015 that The Options Clearing Corporation has designated as grandfathered, the term "expiration date" shall mean the Saturday immediately following the third Friday of the expiration month. In the case of options on foreign currencies listed on or after June 13, 1993, the expiration date is 11:59 p.m. Eastern Time, on the Friday preceding the third Wednesday of the expiration month except in the following instances:



(1) In the case where American style foreign currency options contracts are listed subsequent to the European style options contracts for the June and December 1994 series of foreign currency options;

(2) In the case of end of the month foreign currency option contracts listed on or after August 1, 1993, the expiration date is 11:59 p.m. Eastern Time on the last Friday of the expiration month; provided, however, that if the last Friday of the expiration month of such option contracts is December 25th, then the term "expiration date" shall be the Friday immediately preceding December 25th, and if the last Friday of the expiration month of such option contracts is December 31st, then the term "expiration date" shall be the Friday immediately preceding December 24th.

(3) In the case of U.S. dollar-settled foreign currency option contracts, the expiration date is (i) in the case of such an option expiring prior to February 1, 2015, 11:59 p.m. Eastern Time, the Saturday immediately following the third Friday of the expiration month of such option contract and (ii) in the case of such option expiring on or after February 1, 2015, 11:59 p.m. Eastern Time, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which the Exchange is open for business.

(21) The term "**expiration month**" in respect of an option contract means the month and year in which such option contract expires.

(22) The term "**foreign broker-dealer**" means any person or entity that is registered, authorized or licensed, or required to be by a foreign governmental agency or foreign regulatory organization to perform the function of a broker or a dealer in securities, or both. The terms "broker" or "dealer" mean the same as set out in Sections 3(a)(4) and 3(a)(5) of the Exchange Act, as amended, provided that a broker or dealer may be a bank. For purposes of Options 2, Section 4, Options 3, Section 7 and Options 8, Section 34, the term broker-dealer includes foreign broker-dealers, which are not Public Customers.

(23) The term "**foreign currency**" means the standard unit of the official medium of exchange of a sovereign government including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona, or the United States dollar) or the Euro.

(24) The term "**long position**" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(25) The term "**forward sales prices**" in respect of an option contract on a foreign currency means the prices, quoted by various interbank foreign exchange participants for the sale of a single unit of the underlying foreign currency for other than immediate

delivery (which generally means delivery more than two business days following the date on which the terms of such a sale are agreed upon), as reflected in the foreign currency price quotations reported by the foreign currency price quotation dissemination system selected by the Exchange.

(26) The term "**in-the-money**" means the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Options 2, Section 4 and Options 3, Section 8.

(27) A "**Lead Market Maker**" means a member who is registered as an options Lead Market Maker pursuant to Options 2, Section 12(a). A Lead Market Maker includes a Remote Lead Market Maker which is defined as a Lead Market Maker in one or more classes that does not have a physical presence on an Exchange's trading floor and is approved by the Exchange pursuant to Options 2, Section 11.

(28) A "**Market Maker**" means a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

(29) A "**mnemonic**" means an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

(30) The term "**Non-Public Customer**" means a person or entity that is a broker or dealer in securities, or is a Professional.

(31) The term "**offer**" means a quote or limit order to sell one or more options contracts.

(32) The term "**Order Entry Firm** or "**OEF**" means a member organization that submits orders, as agent or principal, on the Exchange.

(33) The term "**Off-Floor Broker-Dealer Order**" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

(34) The term "**opening purchase transaction**" means an Exchange options transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

(35) The term "**opening writing transaction**" means an Exchange options transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

(36) The term "**The Options Clearing Corporation**" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.

(37) The term "**option contract**" means a put or a call issued, or subject to issuance, by The Options Clearing Corporation pursuant to the Rules of The Options Clearing Corporation.

(38) The term "**Option Exchange Official**" means an Exchange staff member or contract employee designated as such by the Chief Regulatory Officer. A list of individual Options Exchange Officials shall be displayed on the Exchange website. The Chief Regulatory Officer shall maintain the list of Options Exchange Officials and update the website each time a name is added to, or deleted from, the list of Options Exchange Officials. In the event no Options Exchange Official is available to rule on a particular matter, the Chief Regulatory Officer or his/her designee shall rule on such matter.

(39) The term "**options trading**" when not preceded by the word "Exchange," means trading in any option issued by The Options Clearing Corporation, whether or not of a class or series which has been approved for trading on the Exchange.

(40) The term "**Order**" means a single order submitted to the System by a member that is eligible to submit such orders.

(41) The term "**out-of-the-money**" means the following: for call options, all strike prices above the offer in the underlying security on the primary listing market; for put options, all strike prices below the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Options 2, Section 4 and Options 3, Section 8.

(42) The term "**outstanding**" in respect of an option contract means an option contract which has been issued by The Options Clearing Corporation and has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another Participating Exchange nor been exercised nor reached its expiration date.

(43) The term "**Participating Exchange**" means a national securities exchange which has qualified for participation in The Options Clearing Corporation pursuant to the provisions of the rules of The Options Clearing Corporation.

(44) The term "**primary market**" means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan.

(45) The term "**professional**" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average

during a calendar month for its own beneficial account(s). Member organizations must indicate whether orders are for Professionals.

(i) Calculation of Professional Orders. With respect to computing the number of orders in listed options per day on average during a calendar month for its own beneficial account(s), the following shall apply:

(a) Each order is counted toward the number of orders, regardless of the options exchange to which the order was routed in determining Professional orders, except FLEX orders.

(b) A cancel and replace order which replaces a prior order shall be counted as a second order, or multiple new orders in the case of Complex Order comprising 9 options legs or more, including "single-strike algorithms." A cancel message is not an order. A series of cancel and replace orders in an individual strike, which track the NBBO, shall be counted as new orders.

(c) Complex Orders consisting of 8 legs or fewer will be counted as a single order, and respecting Complex Orders of 9 options legs or more, each leg will count as a separate order. Stock orders shall not count toward the number of legs.

(d) An order that converts into multiple subordinate orders to achieve an execution strategy shall be counted as one order per side and series, even if the order is routed away. An order that cancels and replaces the resulting subordinate order and results in multiple sides/series shall be counted as a new order per side and series. An order that cancels and replaces the subordinate order on the same side and series will count as one order. For purposes of counting Customer orders, if one Customer order on the same side and series is subsequently broken-up by a broker into multiple orders for purposes of execution or routed away, this order will count as one order.

(46) The term "**Public Customer**" means a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Options 1, Section (b)(46).

(47) The term "**put**" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to The Options Clearing Corporation the number of shares of the underlying stock (in the case of an option on a stock), the number of Exchange-Traded Fund Shares (in the case of an option on an Exchange-Traded Fund Share) or the number of units of the underlying foreign currency (in the case of an option on a foreign currency) covered by the option contract.

(48) The term "**Quarterly Options Series**" means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

(49) A "**Remote Streaming Quote Trader**" or "**RSQT**" mean a Market Maker that is a member affiliated with an Remote Streaming Quote Trader Organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Lead Market Maker upon Exchange approval. An RSQT is also known as a Remote Market Maker ("RMM") pursuant to Options 2, Section 11. A Remote Streaming Quote Organization ("RSQTO") or Remote Market Maker Organization ("RMO") are Exchange member organizations that have qualified pursuant to Options 2, Section 1.

(50) The term "**rules of The Options Clearing Corporation**" means the by-laws and the rules of The Options Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.

(51) The term "**series of options**" means all option contracts of the same class of options having the same expiration date and exercise price.

(52) The term "**short position**" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

(53) The term "**Short Term Option Series**" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day and that expires on the Monday, Wednesday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

(54) A "**Streaming Quote Trader**" or "**SQT**" mean a Market Maker who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the trading floor of the Exchange. An SQT may only submit quotes in classes of options in which the SQT is assigned.

(55) The terms "**stock index group**", "**broad stock index group**" and "**industry stock index group**" in respect of stock index warrants shall have the same meaning as in respect of stock index options.

(56) The term "**stock index warrant**" means a warrant on a stock index group.

(57) The term "**System**" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises:

(i) an order execution service that enables members to automatically execute transactions in option series; and provides members with sufficient monitoring and updating capability to participate in an automated execution environment;

(ii) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority ("OPRA") for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and

(iii) the data feeds described at Options 3, Section 23.

(58) The term "**type of option**" means the classification of an option contract as either a put or a call.

(59) The term "**uncovered**" in respect of a short position in an option contract means that the short position is not covered.

(60) The term "**underlying stock**" or "**underlying Exchange-Traded Fund Share**" in respect of an option contract means the security which The Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

(61) The term "**unit of underlying foreign currency**" means a single unit of the foreign currency (e.g., one British pound, one Swiss franc, one Canadian dollar, one Australian dollar, one Japanese yen, one Mexican peso, one Euro, one Brazilian real, one Chinese yuan, one Danish krone, one New Zealand dollar, one Norwegian krone, one Russian ruble, one South African rand, one South Korean won, or one Swedish krona).

(c) **References.** Exchange Contracts as defined in General 2, Section 18 include option contracts purchased or sold in Exchange options transactions.

(d) **Local Time.** All times are stated in these Rules in terms of the local time in effect in New York City.

## **Options 2 Options [Trading Rules]Market Participants**

### **Section 1 Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options**

(a) Approval as an SQT, RSQT, or RSQTO. Market Makers, as defined in Options 1, Section 1(b)(28), may apply for approval as Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs"), as defined in Options 1, Sections (1)(b) (54) and (49), respectively. Member organizations may function as Remote Streaming Quote Trader Organizations ("RSQTOs") pursuant to this rule. RSQTOs may also be referred to as Remote Market Maker

Organizations ("RMOs") and RSQTOs may also be referred to as Remote Market Markers ("RMMs").

This Rule places no limit on the number of qualifying Market Makers that may become SQTs; any applicant that is qualified as an Market Maker in good standing, and that satisfies the technological readiness and testing requirements described in subsection (b)(ii) below, shall be approved as an SQT. This Rule places no limit on the number of member organizations that are converted to or may become RSQTOs. Any member organization in good standing, and that satisfies the RSQTO readiness and testing requirements described in this rule, shall be approved as an RSQTO. As many as five RSQTOs at any time may be identified by and affiliated with an RSQTO. Each of the affiliated RSQTOs must be qualified as an Market Maker and must be in good standing. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Exchange may defer, for a period to be determined in the Exchange's discretion, approval of qualifying applications for SQT or RSQTO status pending any action required to address the issue of concern to the Exchange. The Exchange may not defer a determination of the approval of the application of any SQT or RSQTO applicant or place any limitation(s) on access to the Exchange's electronic quoting and System on any SQT or RSQTO applicant unless the basis for such limitation(s) or deferral have been objectively determined by the Exchange, subject to SEC approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Exchange Act, as amended. The Exchange shall provide written notification to any SQT or RSQTO applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

*RSQTO application.* A member organization that is not currently qualified as an RSQTO may apply to the Exchange to be an RSQTO with up to five affiliated RSQTOs. Each RSQTO application shall be submitted to the Exchange's designated staff in writing (electronically or otherwise as specified by the Exchange) in a form and/or format prescribed by the Exchange and shall include, at a minimum, the name of the RSQTO applicant, the appropriate Exchange account number, and the name of each RSQTO affiliated with the RSQTO applicant (the "Application Process").

(1) RSQTO applicants must demonstrate that they have:

(A) Significant market-making and/or Lead Market Maker experience in a broad array of securities;

(B) Superior resources, including capital, technology and personnel;

(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;

(D) Proven ability to interact with order flow in all types of markets;

(E) Existence of order flow commitments;

(F) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and

(G) Willingness and ability to make competitive markets on the Exchange and otherwise to promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the options it trades.

(2) SQT and RSQT applicants must demonstrate that they have:

(A) Significant market-making and/or Lead Market Maker experience in a broad array of securities;

(B) Superior resources, including capital, technology and personnel;

(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;

(D) Proven ability to interact with order flow in all types of markets;

(E) Willingness and ability to make competitive markets on the Exchange and otherwise to promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the options it trades.

(F) A current affiliation with an Exchange-approved RSQTO (RSQT applicants only).

(b)(1) Application and Assignment in Options. Each RSQTO, RSQT or SQT application for assignment in an option shall be submitted to the Exchange's designated staff in writing (electronically or otherwise as specified by the Exchange) in a form and/or format prescribed by the Exchange and shall include, at a minimum, the name of the SQT or RSQT applicant, the appropriate Exchange account number, the requested start date for each option applied for, and the name of the RSQTO member organization with whom the RSQT applicant is affiliated or the member organization with whom the SQT is affiliated. If the Exchange does not have applications for assignment in a particular option or options that it desires to assign or reassign, the Exchange may request such applications.

(2) No application for initial assignment in an option shall be approved without verification that (A) the RSQTO, SQT or RSQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Options 2, Section 6(b)(ii), and (B) the RSQTO, SQT or RSQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

(3) In addition to the criteria described in this sub-paragraph, the Exchange shall consider the following factors in making its decision concerning an application for assignment in an option:

(A) the financial and technical resources available to the applicant;



(B) the applicant's experience and expertise in market making or options trading;

(C) the applicant's prior performance as a Lead Market Maker, SQT or RSQT based on good standing pursuant to Options 2, Section 9.

(c) Decisions concerning applications for assignment in Streaming Quote Options shall be in writing and shall be distributed to the applicants.

(d) The RSQTO, SQT or RSQT, upon initial assignment in an option, may not withdraw from such option assignment for ten (10) or fewer business days after the effective date of assignment. However, the Exchange may, in exceptional circumstances, approve withdrawal from an option assignment in ten (10) or fewer business days. If an RSQTO, SQT or RSQT seeks to withdraw from assignment in an option, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.

(e) An appeal to the Board of Directors from a decision of the Exchange may be requested by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered. Any appeal from a decision pursuant to this Rule shall be heard by the Board of Directors ("Board") or a panel appointed by the Board of Directors ("Board Panel") composed of three (3) members not involved in the Exchange decision appealed from and who otherwise have no conflict of interest. If a Board Panel is appointed by the Board, three persons shall be selected to serve on the Board Panel and in making such selections the Board shall choose individuals whose background, experience and training qualify them to consider and make determinations regarding the subject matter to be presented to the Board Panel. The Board Panel shall consist of two members of the Exchange, or general partners or officers of member organizations and one other person who would qualify as a public member as defined in Article I of the By-Laws, whom the Board considers to be qualified. The person requesting review shall be permitted to submit a written statement to and/or appear before this Board or Board Panel. The Secretary of the Exchange shall certify the record of the proceeding, if any and the written decision and shall submit these documents to the Board or Board Panel. The Board's or Board Panel's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The Board or Board Panel shall prepare and deliver to such person a written decision and reasons therefore. If the Board or Board Panel affirms the action, the action shall become effective ten (10) days from the date of the Board's or Board Panel's decision. There shall be no appeal to the Board from any decision of the Board Panel.

(f) Nothing in this Rule shall be construed to automatically qualify an RSQT to be a Remote Lead Market Maker on the Exchange.

(g) Within not more than thirty business days after assignment of an option pursuant to this Rule, an assigned SQT or RSQT shall begin to generate and submit electronic quotations for such option through the Exchange's electronic quotation, execution, and System.

(1) If electronic quotes are not generated and submitted by an assigned SQT or RSQT within the requisite time, the Exchange shall have the ability to terminate the assignment in question after providing written notice to the assigned SQT or RSQT, and make a re-assignment, unless there are exigent circumstances that the Exchange believes may not have allowed timely generation and submission of electronic quotes.

## **Section 2. Reserved**

### **Section 3. Allocation Application, Allocation, Reallocation, Transfer and Voluntary Resignation**

(a) When an options class is to be allocated or reallocated by the Exchange, the Exchange will solicit applications from all eligible Lead Market Maker unit. If the Exchange determines that special qualifications should be sought in the successful applicant, it shall indicate such desired qualifications in the notice.

(b) An allocation or reallocation application shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name and background of the head Lead Market Maker and assistant Lead Market Maker(s) (except that a Remote Lead Market Maker need not include an assistant Lead Market Maker), the unit's experience and capitalization demonstrating an ability to trade the particular options class sought, and any other reasons why the unit believes it should be assigned or allocated the security. In addition, the Exchange may also require that the application include other information. The Exchange may re-solicit applications for any reason, including if it determines that its initial solicitation resulted in an insufficient number of applicants.

(c) Allocation, reallocation, or transfer decisions and automatic allocations shall be communicated in writing to Exchange members.

(d) Upon allocation, reallocation, or transfer of an options class, the options class must be registered in either the name of the Lead Market Maker unit, or jointly in the name of the unit and the Lead Market Maker ("Registrant"). Each Registrant must be an Exchange member and an approved Lead Market Maker. The Registrant shall act as Lead Market Maker for the options class for at least one year ("minimum Lead Market Maker period"); unless some other period is defined by the Exchange pursuant to this rule. After expiration of the minimum Lead Market Maker period, the Exchange may re-allocate the options class. Once the Lead Market Maker unit is allocated, reallocated, or transferred an options class, such Lead Market Maker unit shall immediately notify the Exchange in writing regarding any material change in the application for any assigned options class.

(e) If a Lead Market Maker unit seeks to withdraw from allocation in a security, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.

(f) *Transfer Application.* Any proposed agreement between or among Lead Market Maker units to transfer one or more options classes already allocated to a specified Lead Market Maker unit

shall be identified to the Exchange in writing before the proposed transfer. An agreement to transfer a Lead Market Maker unit's options classes may not become effective until approved by the Exchange. Failure to provide the Exchange prior notice of a transfer in accordance with this Rule, or failure to obtain Exchange approval of a transfer, permits the Exchange to recover the allocated securities and reallocate them pursuant to this Rule.

(g) Voluntary Resignation of Options Privileges. If an option Lead Market Maker unit voluntarily resigns from allocation in a particular option and the Exchange determines such resignation to be in the best interest of the Exchange, and that option is subsequently delisted, barring any Lead Market Maker performance or disciplinary issues, the option Lead Market Maker unit which last traded that option may be given preference in any future allocation decision regarding that option.

### Supplementary Material to Options 2, Section 3

.01 Allocation Preclusion. A Lead Market Maker unit may not apply for any new listings (allocations) for a six (6) month period after an option was taken away from the Lead Market Maker in: (i) an involuntary reallocation proceeding; or (ii) a disciplinary proceeding. Such Lead Market Maker is also prohibited from applying for any new listings (allocations) for a second six month period unless the Exchange is satisfied that adequate corrective actions have been undertaken by the Lead Market Maker.

### 02. Automatic Allocation of Options on Related Securities.

For purposes of Supplementary Material. 02, the term "Related Securities" means, but is not limited to: securities of a partially or wholly owned subsidiary; securities that are convertible into the securities of the issuer; warrants on securities of the issuer; securities issued in connection with a name change; securities issued in a reverse stock split; contingent value rights; "tracking" securities designed to track the performance of the underlying security or corporate affiliate thereof; securities created in connection with the merger or acquisition of one or more companies; securities created in connection with a "spin-off" transaction; convertible on non-convertible senior securities; and securities into which a listed security is convertible, where such Related Securities emanate from or are related to securities underlying options that are currently allocated to a Lead Market Maker on the Exchange ("Currently Allocated Options").

The term Related Securities does not include Exchange Traded Funds.

### 03. Alternate Lead Market Maker Period.

The Exchange may establish that a Registrant shall act as a Lead Market Maker in an allocated options class for a shorter period defined by the Exchange that is less than one year ("alternate Lead Market Maker period"). If the Exchange establishes an

alternate Lead Market Maker period, it will communicate such period in solicitation applications (notices) pursuant to this Rule.

After expiration of the alternate Lead Market Maker period, the Exchange may re-allocate the options class.

(a) Options on Related Securities ("Related Options") shall be automatically allocated to the Lead Market Maker unit that is already the Lead Market Maker in Currently Allocated Options ("Current Lead Market Maker"), unless the Current Lead Market Maker is subject to an Allocation Preclusion regarding new listings (allocations) pursuant to this Rule. In such an event, the Exchange may, nonetheless, allocate the Related Options to the Current Lead Market Maker if the Exchange determines that the trading characteristics of the Related Options to be allocated are similar to the Currently Allocated Options.

#### **Section 4. Obligations of Market Makers**

(a) General. Transactions of a Lead Market Maker and a Market Maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(b) Each Market Maker electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options. The obligations of an Market Maker with respect to those classes of options to which he is assigned shall take precedence over his other Market Maker activities.

(1) The off-floor orders for which a Market Maker receives Lead Market Maker margin treatment shall be subject to the obligations of paragraph (a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the Market Maker. An Market Maker is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options.

(2) An RSQT may only submit quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Lead Market Maker in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Lead Market Maker.

(3) The Exchange shall assign SQTs and RSQTs in accordance with Options 2, Section 1 and allocate one or more options to Remote Lead Market Makers in accordance with Options 2, Section 11. An SQT or RSQT may be assigned to and a Remote Lead Market Maker may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

(4) An RSQT shall be required to maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in options assigned to the RSQT or act as a Lead Market Maker or market maker in any security underlying options assigned to the RSQT, and otherwise comply with the requirements of Options 2, Section 12 regarding restrictions on the flow of privileged information between the affiliate and the Lead Market Maker organization.

(5) An RSQT electing to engage in Exchange options transactions is designated as a Lead Market Maker on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as a Market Maker.

(c) **Appointment.** Without limiting the foregoing, a Lead Market Maker and a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market. The following bid/ask differentials only apply to electronic quotations following the Opening Process.

(1) Options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, provided that the foregoing bid/ask differentials shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(d) **Classes of Options To Which Not Appointed** . With respect to classes of options to which a Market Maker is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed, a Market Maker should not

(1) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or

(2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

### **Section 5. Electronic Market Maker Obligations and Quoting Requirements**

For purposes of this rule an "electronic Market Maker " shall mean an SQT, RSQT, Lead Market Maker (including Remote Lead Market Maker), Directed SQT and Directed RSQT who enters electronic quotations into the Exchange's System.

(a) In registering as an electronic Market Maker, a member organization commits to various obligations. Transactions of an electronic Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Electronic Market Makers should not effect purchases or sales except in a reasonable and orderly manner. Ordinarily during trading hours, an electronic Market Maker must:

(1) Maintain a two-sided market in those options in which the electronic Market Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.

(2) Engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of price relationships between option contracts of the same class.

(3) Compete with other electronic Market Makers in all options in all capacities in which the electronic Market Maker is registered to trade.

(4) Make markets that will be honored for the number of contracts entered into the System in all options in which the electronic Market Maker is registered to trade.

(5) Update quotations in response to changed market conditions in all options in which the electronic Market Maker is registered to trade.

(6) Maintain active markets in all options in which the electronic Market Maker is registered.

(7) Honor all orders attributed to the electronic Market Maker that the System routes to away markets pursuant to Options 5, Section 4.

(b) If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic Market Maker will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic Market Maker is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of a Market Maker or in respect of any violation by a Market Maker pursuant to this rule.

(c) Electronic Market Makers must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. On a daily basis, an electronic Market Maker must make markets consistent with the applicable quoting requirements specified below. A member organization will be required to meet each market making obligation separately. An SQT and RSQT who is also the Lead Market Maker will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will

be held to SQT and RSQT obligations in all other options series where assigned. An SQT or RSQT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate.

(1) Size Associated with Quotes. An electronic Market Maker's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic Market Maker is willing to buy or sell. The best bid and best offer submitted by an electronic Market Maker must have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract.

(2) Two-Sided Quotes. An electronic Market Maker that enters a bid (offer) in a series of an option in which he is registered on Phlx must enter an offer (bid). These quotations must meet the legal quote width requirements specified in Options 2, Section 4(c).

(A) SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this paragraph (c)(2) above in any Quarterly Option Series, any adjusted option series, and any option series with an expiration of nine months or greater.

(i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(B) Lead Market Makers (including Remote Lead Market Makers), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Lead Market Makers shall be required to make two-sided markets pursuant to this rule in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

(C) Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. A member organization shall be considered directed in all assigned options once the member organization receives a Directed Order in any option in which they are assigned and shall be considered a Directed SQT or Directed RSQT until such time as the member organization notifies the Exchange

that they are no longer directed. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this paragraph (c)(2) above in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

(D) Specifically, the Exchange will calculate subparagraphs (A) - (C) above by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SOTs, RSOTs, Directed SOTs and Directed RSOTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.

(3) Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.

(4) If a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under paragraph (c)(2) above with respect to the affected quotes.

### **Section 6. Market Maker Orders**

(a) ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and Public Customer-to-Public Customer Cross Orders subject to Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

### **Section 7. Securities Accounts and Orders of Lead Market Makers and Market Makers**

(a) Identification of Accounts—In a manner prescribed by the Exchange, each Lead Market Maker and Market Maker shall file with the Exchange upon request and keep current a list identifying all accounts for stock, Exchange-Traded Fund Share, option and related securities or foreign currencies, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and other related trading in which the Lead Market Maker or Market Maker may,



directly or indirectly, engage in trading activities or over which he exercises investment discretion. No Lead Market Maker or Market Maker shall engage in stock, Exchange-Traded Fund Share, option, or related securities or foreign currencies, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and other related trading in an account which has not been reported (pursuant to this Rule) in a manner prescribed by the Exchange.

(b) No Lead Market Maker or Market Maker in options on a foreign currency shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such person, or any corporation or partnership associated with such person's member organization, pertaining to transactions by such person, corporation or partnership for its own account in any foreign currency with respect to which options are traded on the Exchange, in any futures contract on such a foreign currency, in any option contract on such a foreign currency (including options on foreign currency futures contracts), or in other foreign currency derivatives as may be called for under the Rules of the Exchange or as may be requested by the Exchange in the course of any investigation, any examination or other official inquiry.

(c) Reports of accounts and orders required to be filed with the Exchange pursuant to this Rule relate only to accounts in which a Lead Market Maker or Market Maker, as an individual, directly or indirectly, controls trading activities or has a direct interest in the profits or losses of such accounts. Reports are required for accounts over which a Lead Market Maker or Market Maker exercises investment discretion as well as his proprietary accounts. For purposes of this Rule, related securities include securities convertible into or exchangeable for underlying securities. In the case of Lead Market Makers and Market Makers in options on a foreign currency, the provisions of this Rule governing identification of accounts shall apply to accounts for the trading of foreign currencies, foreign currency futures contracts and foreign currency options (including options on foreign currency futures contracts).

(d) In addition to the existing obligations under Exchange Rules regarding the production of books and records, a Lead Market Maker or Market Maker in commodity futures contracts, options on commodity futures contracts or any other derivatives based on such commodity, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable physical commodity, physical commodity options, commodity futures contracts, options on commodity futures contracts, or any other derivatives on such commodity, as may be requested by the Exchange.

## **Section 8. Reserved**

## **Section 9. Good Standing for Lead Market Maker, SQT, and RSQT**

(a) To remain in good standing as a Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT, the Lead Market Maker, SQT, or RSQT must:

(1) continue to meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the requirements set forth in Options 2 in the Rules of the Exchange;

(2) continue to satisfy the Lead Market Maker, SQT, or RSQT qualification and market making requirements specified by the Exchange, as amended from time to time;

(3) comply with the Rules of the Exchange and the Options Rules as well as the rules of The Options Clearing Corporation and the rules of the Federal Reserve Board; and

(4) pay on a timely basis such member, transaction, and other fees as the Exchange shall prescribe.

(b) The good standing of a Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT may be suspended, terminated, or otherwise withdrawn, as provided in the Exchange's rules, if any of said conditions for approval cease to be maintained or the Lead Market Maker, SQT, or RSQT violates any of its agreements with the Exchange or any of the provisions of the Rules of the Exchange or of the Options Rules.

(1) *Informal Meeting.* The Exchange will provide written notice to a Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT of a contemplated action regarding good standing pursuant to this Rule. A Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT may request and the Exchange may hold an informal meeting to discuss the alleged failure to remain in good standing and to explore possible appropriate remedies. Written notice of the date and time of the meeting will be given to the Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT and no verbatim record will be kept. If the Exchange believes there are no mitigating circumstances that would demonstrate substantial improvement of or reasonable justification for the failure to meet the good standing requirements of this Rule, the Exchange may take appropriate action pursuant to subsection (b) of this Rule. Nothing in this Informal Meeting process limits the Exchange from bringing disciplinary actions for violations of these rules.

(c) *Appeal rights.* An appeal by a Lead Market Maker (including Remote Lead Market Maker), SQT, or RSQT to the Board of Directors ("Board") from a decision of the Exchange may be requested by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered. Any appeal from a decision pursuant to this Rule shall be heard by the Board or a panel appointed by the Board of Directors ("Board Panel") composed of three (3) members not involved in the Exchange decision appealed from and who otherwise have no conflict of interest. If a Board Panel is appointed by the Board, three persons shall be selected to serve on the Board Panel and in making such selections the Board shall choose individuals whose background, experience and training qualify them to consider and make determinations regarding the subject matter to be presented to the Board Panel. The Board Panel shall consist of two members of the Exchange, or general partners or officers of member organizations and one other person who would qualify as a public member as defined in Article I of the By-Laws, whom the Board considers to be qualified. The person requesting review shall be permitted to submit a written statement to and/or appear before the Board or Board Panel. The Secretary of the Exchange shall certify the record of the proceeding, if any, and the written decision and shall submit these documents to the Board or Board Panel. The Board's or Board Panel's review of the action shall

be based solely on the record, the written decision and any statement submitted by the person requesting the review. The Board or Board Panel shall prepare and deliver to such person a written decision and reasons therefore. If the Board or Board Panel affirms the action, the action shall become effective ten (10) days from the date of the Board's or Board Panel's decision. There shall be no appeal to the Board from any decision of the Board Panel.

### **Section 10. Directed Orders**

(a) Lead Market Makers, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this rule.

#### (i) Definitions

(A) The term "Directed Order" means any order to buy or sell which has been directed to a particular Lead Market Maker, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System.

(B) The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, orders to the Exchange.

(C) The term "Directed Lead Market Maker, RSQT, or SQT" means a Lead Market Maker, RSQT, or SQT that receives a Directed Order.

(ii) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Lead Market Maker, SQT or RSQT is quoting at the Exchange's best price, the Directed Order shall be automatically executed and allocated in accordance with Options 3, Section 10(a)(1)(C).

(iii) When the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Lead Market Maker, RSQT, or SQT on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, the Directed Order shall be automatically executed and allocated to those quotations and orders at the NBBO in accordance with Options 10, Section 11(a)(1)(C).

(iv) If the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be handled in accordance with Exchange rules.

### **Section 11. Lead Market Maker Appointment**

(a) Upon application by a qualified member organization, the Exchange will approve such organization as an approved Lead Market Maker unit. An application to act as a Lead Market Maker must include, for ordinary and extraordinary circumstances, the identity of the individual who will act as head Lead Market Maker as well as the individual(s) who will act as assistant Lead Market Maker(s).

(b) Initial application(s) to become a Lead Market Maker unit shall be in a form and/or format prescribed by the Exchange and shall include the following: (1) the identity of the unit's staff

positions and who will occupy those positions; (2) the unit's clearing arrangements; (3) the unit's capital structure, including any lines of credit; and (4) the unit's back up arrangements endorsed by the parties providing the following support: a substitute Lead Market Maker unit not associated with the Lead Market Maker unit which shall serve as a substitute Lead Market Maker unit in the event that the Lead Market Maker unit is unable to perform the duties of a Lead Market Maker.

Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein.

(c) Initial applications for individuals to act as Lead Market Maker shall be in a form and/or format prescribed by the Exchange and include an account of the abilities and background of the applicant as well as any other special requirements that the Exchange may require. Applications for individuals to act as a Lead Market Maker on behalf of a Lead Market Maker unit, must be approved by the Exchange prior to that individual acting in such capacity. The Exchange must approve an individual prior to that individual moving from one Lead Market Maker unit to another Lead Market Maker unit.

Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein.

(d) To be approved as a Lead Market Maker unit and to retain the privilege of such status, an options or foreign currency options Lead Market Maker unit must maintain the approved clearing arrangements and capital structure stated on their application as described in (b)(2) and (b)(3) above. Changes regarding the requirements in (b)(4) must be submitted and approved by the Exchange.

(e) Once an applicant is approved by the Exchange as a Lead Market Maker unit, any material change in the capital or staff of the unit or any move by a head or assistant Lead Market Maker from one unit to another shall be reported in writing to the Exchange and in no circumstances shall be reported more than two business days after the change.

(f) A Remote Streaming Quote Trader ("RSQT"), as defined in Options 1, Section 1(b)(49), may submit an application as described above to be approved in one or more classes as a Remote Lead Market Maker as defined in Options 2, Section 12(a)(2).

(i) A Remote Lead Market Maker does not need to meet the assistant Lead Market Maker staffing requirement pursuant to paragraph (d) of this rule.

## **Section 12. Registration and Functions of Options Lead Market Makers**

(a) A Lead Market Maker is not required to be assigned to an options series.

(1) Notwithstanding the foregoing, no member shall act as an options Lead Market Maker (to include a Remote Lead Market Maker as defined in paragraph (a)(2) below in any option unless such member is registered as an options Lead Market Maker in such

option by the Exchange pursuant to Options 2, Section 11 and such registration may be revoked or suspended at any time by the Exchange.

(2) A Remote Lead Market Maker is an options Lead Market Maker in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Options 2, Section 11.

(3) A Remote Lead Market Maker has all the rights and obligations of an options Lead Market Maker, unless Exchange rules provide otherwise.

(4) A Remote Lead Market Maker shall be accessible to Exchange staff and members during all trading hours for the product(s) allocated to such Lead Market Maker and shall provide Exchange staff and members with telephonic and/or electronic communication access to such Lead Market Maker and/or associated staff at all times during trading hours.

(5) A Remote Lead Market Maker can have a Designee in a physical trading crowd during trading hours. The Designee may trade in open outcry in the option classes allocated to the Remote Lead Market Maker, but the Remote Lead Market Maker shall not receive a participation entitlement under Options 3, Section 10(a)(1)(B) with respect to orders represented by the Designee in open outcry.

(A) A Designee is an individual who is approved by the Exchange for the time period specified by the Exchange to represent a Remote Lead Market Maker in its capacity as a Remote Lead Market Maker. The Exchange may require specified supervision of a Designee and/or limit a Designee's authority to represent a Remote Lead Market Maker.

(B) A Designee must be a member of the Exchange, an affiliate of the Remote Lead Market Maker, and a Market Maker pursuant to the rules of the Exchange.

The Exchange shall have the discretion to permit an individual who is not affiliated with a Remote Lead Market Maker to act as a Designee for the Remote Lead Market Maker on an emergency basis, provided that the individual satisfies the other requirements of subparagraph (a)(5)(B) of this Rule.

(C) A Designee may not trade as a Market-Maker in securities allocated to the Remote Lead Market Maker unless the Designee is acting on behalf of the Remote Lead Market Maker in its capacity as a Remote Lead Market Maker.

(b) As a condition of a member's being registered as a Lead Market Maker in one or more options, it is to be understood that a Lead Market Maker is to engage in a course of dealings for his own account to assist in the maintenance insofar as reasonably practicable, of a fair and orderly market on the Exchange in such options in accordance with and when viewed in relation to the criteria set forth in paragraphs (c) and (d) of this Rule and the commentary thereto. If the Exchange shall have found any substantial or continued failure by a Lead Market Maker to

engage in such a course of dealings, the registration of such Lead Market Maker shall be subject to suspension or cancellation by the Exchange in one or more of the options in which he is registered. Nothing herein shall limit any other power of the Board of Directors under the By-Laws or any Rule of the Exchange with respect to the registration of a Lead Market Maker or in respect of any violation by a Lead Market Maker of the provisions of this Rule.

(c) A Lead Market Maker or his member organization shall not effect on the Exchange purchases or sales of any option in which such Lead Market Maker is registered, for any account in which he or his member organization is directly or indirectly interested, unless such dealings are reasonably necessary to permit such Lead Market Maker to maintain a fair and orderly market.

(d) In connection with the function of a Lead Market Maker in relation to assisting in the maintenance, insofar as reasonably practicable, of a fair and orderly market in the options in which he is registered, it is ordinarily expected that a Lead Market Maker will engage, to a reasonable degree under the existing circumstances, in dealings for his own account in options when lack of price continuity or lack of depth in the options market or temporary disparity between supply and demand in the options market exists or is reasonably to be anticipated. Transactions on the Exchange for his own account effected by a Lead Market Maker in the options in which he is registered are to constitute a course of dealings reasonably calculated to contribute to the maintenance of price continuity with reasonable depth, and to the minimizing of the effects of temporary disparity between supply and demand, immediate or reasonably to be anticipated. Transactions in such options not part of such a course of dealings are not to be effected by a Lead Market Maker for his own account.

(e) In effecting transactions for his own account for the purpose of establishing or increasing a position, a Lead Market Maker is to effect such transactions in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular option and the adequacy of his position to the immediate and reasonably anticipated needs of the options market.

(f) Transactions by a Lead Market Maker for his own account in liquidating or decreasing his position in an option in which he is registered are to be effected in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular option and the adequacy of the Lead Market Maker's positions to the immediate and reasonably anticipated needs of the options market.

### **Section 13. Affiliated Persons Of Lead Market Makers**

No issuer, or parent or subsidiary thereof, or any officer, director or 10% stockholder thereof, may become an approved person in a Lead Market Maker member organization whose members are registered in options overlying a security of that issuer.

### **Section 14. Limitations on Options Market Making**

No Market Maker or any member, limited partner, officer, or associated person thereof shall act as an options Lead Market Maker, Market Maker or function in any capacity involving market making responsibilities, in any option overlying a security in which the Market Maker is registered as such.

## **Options 2A. Reserved**

## **Options 3 Options [Market Participants]Trading Rules**

### **Section 1. Hours of Business**

(a) Except as otherwise ordered by the Board of Directors, the Exchange shall be open for the entrance of members upon every business day, at 8:00 A.M. Eastern Time. The Exchange shall conform with daylight savings time when effective in the City of Philadelphia. The Board of Directors shall determine by resolution the hours during which business may be transacted on the Exchange. The Board of Directors has resolved that no option series shall freely trade after 4:00 P.M. Eastern Time, except that broad-based (market) index options shall freely trade until 4:15 P.M. Eastern Time each business day, as specified in Options 4A, Section 12, Supplementary Material .01. The Board of Directors has resolved that except under unusual conditions as may be determined by the Board (or the Exchange official or officials designated by the Board) foreign currency option trading sessions shall be conducted at such times as the Board of Directors shall specify between 6:00 P.M. Eastern Time Sundays and 3:00. P.M. Eastern Time Fridays, provided that U.S. dollar-settled foreign currency options shall trade during the same hours as narrow-based index options.

(b) **Options Trading after 4:00 P.M. Eastern Time.** A trading rotation in any class of option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. Eastern Time provided such rotation is conducted pursuant to Options 3, Section 9 or Options 4A, Section 18. Options on any series of Exchange-Traded Fund Shares so designated by the Exchange, options on exchange-traded notes including Index-Linked Securities and options on Alpha Indexes may be traded on the Exchange until 4:15 P.M. Eastern Time each business day. The Exchange may close trading at an early time to coincide with the close of trading in a related futures contract on the last business day of the month, or any other day when a related futures contract closes earlier than 4:15 P.M. Eastern Time.

### **Section 2. Units of Trading**

The unit of trading in each series of options dealt in on the Exchange shall be the unit of trading established for that series by The Options Clearing Corporation pursuant to the rules of The Options Clearing Corporation.

### **Section 3. Minimum Increments**

(a) Except as provided in Commentary below, all options on stocks, index options, and Exchange Traded Fund Shares trading at a price of \$3.00 or higher shall have a minimum increment of \$.10, and all options on stocks and index options trading at a price under \$3.00 shall have a minimum increment of \$.05.

(1) However, the Board of Directors may establish different minimum trading increments. The Exchange will designate any such change as a stated policy, practice or interpretation with respect to the administration of this Rule, within the meaning of Section 19(b)(3)(A) of the Exchange Act and will file a proposed rule change with the Securities and Exchange Commission to be effective upon filing.

(2) An order received at a price expressed in other than the appropriate minimum trading increment described in this Rule shall be rejected by the System.

(3) Different minimum changes for dealings in option contracts other than those specified in paragraph (a) may also be fixed by the Exchange from time to time for option contracts of a particular series.

Supplementary Material to Options 3, Section 3:

.01 Penny Pilot Program: For a pilot period scheduled to expire June 30, 2020 or the date of permanent approval, if earlier (the "pilot"), certain options shall be quoted and traded on the Exchange in minimum increments of \$0.01 for all series in such options with a price of less than \$3.00, and in minimum increments of \$0.05 for all series in such options with a price of \$3.00 or higher, except that options overlying the PowerShares QQQ Trust ("QQQQ")®, SPDR S&P 500 Exchange Traded Funds ("SPY"), and iShares Russell 2000 Index Funds ("IWM") shall be quoted and traded in minimum increments of \$0.01 for all series regardless of the price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

The Exchange may replace any pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the pilot, based on trading activity in the previous six months. The replacement issues may be added to the pilot on the second trading day in the first month of each quarter.

.02 All options on foreign currencies where the underlying foreign currency is not the U.S. dollar shall have a minimum increment of \$.01.

.03 All options on Alpha Indexes shall have a minimum increment of \$.01 if options on either component of the index have a minimum increment of \$.01.

.04 All Mini Option contracts shall have a minimum price variation as set forth in Commentary .13 of Options 4, Section 5.

**Section 4. Entry and Display of Quotes**

(a) All bids or offers for option contracts dealt in on the Exchange made and accepted in accordance with these Rules shall constitute binding contracts between the parties thereto but shall be subjected to applicable requirements and the rules of the Clearing Corporation.

(b) Quotes are subject to the following requirements and conditions:

(1) RSQTs or Remote Lead Market Makers may generate and submit option quotations.

(2) The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.



(3) Lead Market Makers, Remote Lead Market Makers and Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.

(4) The System accepts quotes for the Opening Process as specified in Options 3, Section 8.

(5) **Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

(6) **Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(7) Quotes submitted to the System are subject to the following: minimum increment provided for in Options 3, Section 3, risk protections provided for in Options 3, Section 15 and Quote Exhaust provided for in Options 3, Section 6.

(c) Quotes will be displayed in the System as described in Options 3, Section 23.

### **Section 5. Entry and Display of Orders**

(a) Members can enter orders into the System, subject to the following requirements and conditions:

(1) Members shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels.

- (2) The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site.
- (3) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.
- (4) Orders submitted to the System are subject to the following: minimum increments provided for in Options 3, Section 3, risk protections provided for in Options 3, Section 15, and the restrictions of any order type as provided for in Options 3, Section 7(b). Orders may execute at multiple prices.
- (5) Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Exchange Act or any of the rules and regulations thereunder.

(b) **NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Options 5, Section 1(h)), will not be automatically executed by the System at prices inferior to the NBBO (as defined in Options 5, Section 1(j)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Options 5, Section 1(k)).

(c) The System automatically executes eligible orders using the Exchange's displayed best bid and offer ("PBBO") or the Exchange's non-displayed order book ("internal PBBO") if there are non-displayed orders on the order book or the best bid and/or offer on the Exchange has been repriced pursuant to subsection (d) below.

(d) **Trade-Through Compliance and Locked or Crossed Markets.** An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(e) Orders will be displayed in the System as described in Options 3, Section 23.

## **Section 6. Firm Quotations**

(a) *Definitions.*

(i) The term "disseminated price" shall mean the bid (or offer) price for an options series that is made available by the Exchange and displayed by a quotation vendor on a terminal or other display device.

(ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:

(A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, at least the sum of the size associated with Limit Orders, Lead Market Makers' quotations, SQTs' quotations, and RSQTs' (as defined in Options 1, Sections 1(b)(54) and (49), respectively) quotations.

(B)

(1) If an SQT or RSQT's (other than a Directed SQT or RSQT) quotation size in a particular series in a Streaming Quote Option is exhausted or removed by the Automated Quotation Adjustments pursuant to Options 3, Section 15(c)(2), such SQT or RSQT's quotation shall be deleted from the Exchange's disseminated quotation until the time the SQT or RSQT revises his/her quotation.

(2) Quote Exhaust. Respecting options that are traded on the System, Quote Exhaust occurs when the Exchange's disseminated market at a particular price level includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order through the initial execution price. The initial execution price that gives rise to Quote Exhaust is known as the "reference price." Under Quote Exhaust, any order volume that is routed to away markets will be marked as an ISO.

(a) Quote Exhaust Timer. When a Quote Exhaust occurs, the System will initiate a "Quote Exhaust Timer" that will apply to all options traded on the System, not to exceed one second, during which any participant (including any participant(s) whose size was exhausted) may submit quotes, sweeps or orders at any price level.

(b) During the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. The Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

If the remaining contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated and normal trading will resume.

(c) New Interest on the Opposite Side of the Market. If the Exchange receives an order, quote or sweep on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that locks or crosses the reference price at any time during the Quote Exhaust Timer, it will execute immediately against the initiating quote or order at the reference price. If the initiating quote or order that caused the Quote Exhaust is exhausted, the Quote Exhaust Timer will be terminated. With respect to any order, quote or sweep received on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that is inferior to the reference price, the system will place any non-IOC order onto the book. Such non-IOC order on the book will be included in the first PBBO calculation following the end of the Quote Exhaust Timer. All non-marketable sweeps and IOC orders will be cancelled immediately if not executed and will not participate in the Quote Exhaust process.

(d) New Interest on the Same Side of the Market. If the Exchange receives an order, quote or sweep on the same side of the market as the initiating quote or order during the Quote Exhaust Timer, the System will cancel any such sweep or IOC order. If such new quote or order, other than an IOC order, is a market or marketable Limit Order or marketable quote (i.e., priced at or through the reference price) the System will display it at the reference price, with a disseminated size that is the sum of such order and/or quote plus the remaining contracts in the initiating order or quote.

(e) End of the Quote Exhaust Timer. At the end of the Quote Exhaust Timer, if there are still unexecuted contracts remaining in the initiating quote or order or any new interest on the same side of the market, the System will calculate a new Phlx Best Bid/Offer ("PBBO"). The PBBO will include the remaining unexecuted portion of the initiating quote or order plus any new interest received on the same side of the market at the reference price, or if locking or crossing the ABBO, at one minimum trading increment away from the ABBO, for the full available size. The other side of the PBBO will be the actual Exchange interest at the best price.

The System will conduct an Acceptable Range price "test" (as described below) to determine whether there is a valid next available price at which the System may execute the remaining unexecuted contracts.

(f) Acceptable Range Test. The System will conduct an Acceptable Range Test to determine if the next available price on the Exchange is within an Acceptable Range. The System will calculate the Acceptable Range for the next available price by taking the reference price, plus or minus a value to be determined by the

Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders).

(g) Quote Exhaust Resolution. The System will first determine whether to trade at the next available Phlx price by comparing it to the Acceptable Range price (defined as, with respect to an initiating buy order, the highest price of the Acceptable Range, and, with respect to an initiating sell order, the lowest price of the Acceptable Range) and the Away Best Bid/Offer ("ABBO") price to establish a "Best Price."

(i) With respect to an initiating buy order, the Best Price is the lowest price of: (A) the next available Exchange offer; (B) the ABBO offer; or (C) the Acceptable Range price on the offer side of the market. With respect to an initiating sell order, the Best Price is the highest price of (D) the next available Exchange bid; (E) the ABBO bid; or (F) the Acceptable Range price on the bid side of the market.

(ii) Initiating quote or order does not lock or cross Best Price. If the price of the initiating quote or order (if a Limit Order) does not lock or cross the Best Price, the System will post the remaining portion of the initiating quote or order at its limit price and normal trading will resume.

(iii) Initiating quote or order locks Best Price. If the initiating quote or order locks the Best Price, the system will execute, route if a routable order, and/or post, the initiating quote or order as follows:

(A) If the Best Price is the Exchange's next available price:

(1) standing alone, the system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size

(2) and is equal to the ABBO price, any remaining unexecuted routable order volume from the execution on the Exchange will be routed away. After such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;

(3) and is equal to the Acceptable Range price, any remaining unexecuted contracts from the execution on the Exchange will be posted at the Acceptable Range price;

(4) and is equal to both the ABBO price and the Acceptable Range price, any remaining order volume from the execution on the Exchange will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the Acceptable Range price.

(B) If the Best Price is the ABBO where the ABBO is not equal to the next Phlx price:

(1) standing alone, the initiating order will be routed away up to the size of the ABBO and, after routing, any remaining unexecuted contracts from the initiating order will be posted on the Exchange at the ABBO price;

(2) and is equal to the Acceptable Range price, the initiating order will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;

(3) if the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price.

(iv) Initiating quote or order crosses Best Price. If the initiating quote or order crosses the Best Price, the System will execute, route order volume, and/or post the initiating quote or order as set forth below:

(A) If the Best Price is the Exchange's next available price

(1) standing alone, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size;

(2) and is equal to the ABBO price, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining order volume from the execution on the Exchange will be routed away to the ABBO market(s);

(3) and is equal to the Acceptable Range price, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining volume from the execution on the Exchange will be posted at the Acceptable Range price for the remaining size, for a period of time not to exceed ten seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the System will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller,

or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(4) and is also equal to both the ABBO price and the Acceptable Range price, any remainder order volume from the execution on the Exchange will be routed away, and if after such routing, there still remain unexecuted contracts, the remainder will be posted on the Phlx at the Acceptable Range price for a period not to exceed ten seconds, and then cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the System will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(B) If the Best Price is the ABBO:

(1) standing alone, the initiating order will be routed away to the ABBO market(s);

(2) and is equal to the Acceptable Range price, the initiating order will be routed away and if after routing there remain unexecuted contracts, the remainder of the order will be posted on the Phlx at the ABBO price for a period not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this period, the System will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(C) If the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price for a period of time not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the System will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the

price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(v) Non-routable orders. If the initiating order is non-routable when the order would otherwise be routed according to the process described above, the order will be posted on the Exchange at a price that is one minimum trading increment inferior to the Best Price so as not to lock an away market.

(vi) If, after trading at the Phlx and/or routing, there is a remainder of the initiating order, and such remainder is still marketable, the entire process of evaluating the Best Phlx price and the ABBO will be repeated until: (A) the order size is exhausted, or (B) the order reaches its limit price. If there still remain unexecuted contracts after routing but the order has reached its limit price, the remainder will be posted at the order's limit price, except that, when the limit price crosses the Acceptable Range Price, the remainder will be posted at the Acceptable Range Price for a period of time not to exceed ten seconds. During this up to ten second period, the System will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. After such time period, the Acceptable Range Price becomes the Reference Price and Acceptable Trade Range (pursuant to Options 3, Section 15) is applied to the remaining size of the order.

(4)

(a) If there are no offers both on the Exchange and on away markets in the affected series, Market Orders to buy in the affected series will be cancelled immediately, and an electronic report of such cancellation will be transmitted to the sender.

(b) If there are no offers on the Exchange and there are offers on away markets in the affected series, Market Orders to buy will be handled pursuant to Exchange Options 5, Section 4.

(c) If there are no bids or a zero priced bid on the Exchange and there are no bids on away markets in the affected series, the Exchange will disseminate a bid price of zero, and Market Orders to sell will be handled pursuant to Options 3, Section 7(b).

(d) If there are no bids or a zero priced bid on the Exchange and there are bids on away markets in the affected series, Market Orders to sell will be handled pursuant to Options 5, Section 4.



(C) The Exchange shall disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

(1) the Exchange's disseminated bid or offer price increases or decreases;

(2) the size associated with the Exchange's disseminated bid or offer decreases; or

(3) the size associated with the Exchange's bid (offer) increases by an amount greater than or equal to a percentage (never to exceed 20%) of the size associated with previously disseminated bid (offer). Such percentage, which shall never exceed 20%, shall be determined on an issue-by-issue basis by the Exchange and announced to membership via Exchange circular.

(iii) The term "SEC Quote rule" shall mean rule 602 of Regulation NMS under the Exchange Act, as amended.

(iv) The terms "customer," "responsible broker or dealer," and "specified persons" shall have the meaning set forth in the SEC Quote rule.

(b) (i) Except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. If the responsible broker or dealer is representing (as agent) a Limit Order, such responsible broker or dealer shall be responsible (as agent) up to the size of such Limit Order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such Limit Order to the extent provided in General 2, Section 17.

(ii) In the event an SQT, RSQT or Lead Market Maker in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or Lead Market Maker member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

(c) The requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.

Any exemption granted pursuant to paragraph (c)(iv) shall be in writing and shall set forth the basis upon which the exemption is granted.

(d) If responsible brokers or dealers receive an order to buy or sell a listed option at the disseminated price in an amount greater than the disseminated size, such responsible broker or dealer shall, within thirty (30) seconds of receipt of the order, (i) execute the entire order at the disseminated price (or better), or (ii) execute that portion of the order equal to the disseminated size at the disseminated price (or better), and revise its bid or offer.

#### Supplementary Material to Options 3, Section 6

.01 For purposes of this Rule, the term "broker-dealer orders" includes orders for the account(s) of market makers on another exchange and Market Makers on the Exchange.

.02 Locked Markets. In the event that an SQT, RSQT, and/or Lead Market Maker's electronically submitted quotations interact with the electronically submitted quotations of other SQTs, RSQTs and/or the Lead Market Maker, resulting in the dissemination of a "locked" quotation (e.g., \$1.00 bid - 1.00 offer), the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Options 3, Section 10.

.03 Crossed Markets. The Exchange will not disseminate an internally crossed market (e.g., \$1.10 bid, 1.00 offer). If an SQT, RSQT or Lead Market Maker electronically submits a quotation ("incoming quotation") that would cross an existing quotation ("existing quotation"), the Exchange will change the incoming quotation such that it locks the existing quotation and automatically execute the locked quotations against each other in accordance with the allocation algorithm set forth in Options 3, Section 10.

### **Section 7. Electronic Acceptance of Quotes and Orders**

(a) Entry and Display of Orders and Quotes. Members may enter orders and quotes into the System as specified below.

(i) The Exchange offers members the following protocols for entering orders and quotes respectively:

(A) "Financial Information eXchange" or "FIX" is an interface that allows members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.

(B) "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start

of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series.

(C) **Options Floor Based Management System or ("FBMS")** is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Options 8, Sections 28(e) and 29. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

(b) **Order Types.** The following order types may be submitted to the System:

(1) **Market Order.** A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists, ROTs and Off-Floor Broker-Dealers may not submit Market Orders.

(2) **Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

(3) **Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Options 5, Section 1. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism ("PIXL") pursuant to Options 3, Section 13 (b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Options 3, Section 8.

(4) **Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Specialists and ROTs may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

(A) A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

(B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.

(5) **All-or-None Order.** An All-or-None Order is a Limit Order or Market Order that is to be executed in its entirety or not at all. An All-or-None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met. The Acceptable Trade Range protection in Options 3, Section 15(a) is not applied to All-Or-None Orders.

(i) **Non-Displayed Contingency Orders.** A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.

(6) **Opening Sweep.** An Opening Sweep is a one-sided order entered by a Specialist or ROT through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order.** A Cancel-Replacement Order is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will result in a loss of priority.

(8) **Qualified Contingent Cross Order or QCC Order.** A QCC Order is as that term is defined in Options 3, Section 12.

(9) **PIXL Order.** A PIXL Order is as described in Options 3, Section 13.

(10) **Legging Order.** A Legging Order is as the term is specified in Options 3, Section 14(f)(iii)(C).

(11) **Directed Orders.** A Directed Order is as described in Options 2, Section 10.

(c) **Time in Force or "TIF."** The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) **Day.** If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel.** An Immediate-or-Cancel (“IOC”) Order entered with a TIF of “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Options 3, Section 15(a).

(C) Orders entered into the Price Improvement XL (“PIXL”) Mechanism and Qualified Contingent Cross (“QCC”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

(3) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG”. This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. Any portion of the order that is not executed during the Opening Process is cancelled.

(4) **Good Til Cancelled.** A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

(d) Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Options 5, Section 4 through FIX only.

(e) **Off-Floor Broker-Dealer Order.** An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

### **Section 8. Openings In Options**

(a) **Definitions.** The Exchange conducts an electronic opening for all option series traded on Phlx using its System.

(i) The ABBO is the Away Best Bid or Offer.

- (ii) The "market for the underlying security" is either the primary listing market or the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), as determined by the Exchange by underlying and announced to the membership on the Exchange's web site.
- (iii) The Opening Price is described herein in sections (i) and (k).
- (iv) The Opening Process is described herein in section (d).
- (v) A Phlx Electronic Market Maker is a Lead Market Maker, Streaming Quote Trader ("SQT") or Remote SQT ("RSQT") who is required to submit two sided electronic quotations pursuant to Options 3, Section 5.
- (vi) Potential Opening Price is described herein in section (h).
- (vii) The Pre-Market BBO is the highest bid and the lowest offer among Valid Width Quotes.
- (viii) A Quality Opening Market is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions.
- (ix) A Valid Width Quote is a two-sided electronic quotation submitted by a Phlx Electronic Market Maker that meets the following requirements: options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.
- (x) A Zero Bid Market is where the best bid for an options series is zero.

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. Non-SQT Market Makers may submit orders. All-or-None interest that can be satisfied is considered for execution and in determining the Opening Price throughout the Opening Process.

(i) Opening Sweep. An Opening Sweep is defined at Options 3, Section 7(b)(6).

(A) A Phlx Electronic Market Maker assigned in a particular option may only submit an Opening Sweep if, at the time of entry of the Opening Sweep, that Phlx Electronic Market Maker has already submitted and maintained a Valid Width Quote. All Opening Sweeps in the affected series entered by a Phlx Electronic Market Maker will be cancelled immediately if that Phlx Electronic Market Maker fails to maintain a continuous quote with a Valid Width Quote in the affected series.

(B) Opening Sweeps may be entered at any price with a minimum price variation applicable to the affected series, on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Phlx Electronic Market Maker may enter multiple Opening Sweeps, with each Opening Sweep at a different price level. If a Phlx Electronic Market Maker submits multiple Opening Sweeps, the System will consider only the most recent Opening Sweep at each price level submitted by such Phlx Electronic Market Maker in determining the Opening Price. Unexecuted Opening Sweeps will be cancelled once the affected series is open.

(ii) The System will aggregate the size of all eligible interest for a particular participant category at a particular price level for trade allocation purposes pursuant to Options 3, Section 10.

(c) **Orders Represented by Floor Brokers.** To be considered in the Opening Process, orders represented by Floor Brokers must be entered electronically.

(d) Phlx Electronic Market Maker Valid Width Quotes and Opening Sweeps received starting at 9:25 AM are included in the Opening Process. Orders entered at any time before an option series opens are included in the Opening Process.

(i) The Opening Process for an option series will be conducted pursuant to paragraphs (f) - (k) below on or after 9:30 AM if: the ABBO, if any, is not crossed; and the System has received, within two minutes (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) of the opening trade or quote on the market for the underlying security in the case of equity options or, in the case of index options, within two minutes of the receipt of the opening price in the underlying index (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site), or within two minutes of market opening for the underlying currency in the case of U.S. dollar-settled FCO (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) any of the following:

(A) the Lead Market Maker's Valid Width Quote;

(B) the Valid Width Quotes of at least two Phlx Electronic Market Makers other than the Lead Market Maker; or

(C) if neither the Lead Market Maker's Valid Width Quote nor the Valid Width Quotes of two Phlx Electronic Market Makers have been submitted within such timeframe, one Phlx Electronic Market Maker has submitted a Valid Width Quote.

(ii) For all options, the underlying security, including indexes, must be open on the primary market for a certain time period as determined by the Exchange for the Opening Process to commence. The time period shall be no less than 100 milliseconds and no more than 5 seconds.

(iii) The Lead Market Maker assigned in a particular equity or index option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index. The Lead Market Maker assigned in a particular U.S. dollar-settled FCO must enter a Valid Width Quote, in 90% of their assigned series, not later than 30 seconds after the announced market opening. The Lead Market Maker must promptly enter a Valid Width Quote in the remainder of their assigned series, which did not open within one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index or, with respect to a U.S. dollar-settled FCO, following the announced market opening.

(iv) A Phlx Electronic Market Maker other than a Lead Market Maker that submits a quote pursuant to this Options 3, Section 8 in any option series when the Lead Market Maker's quote has not been submitted shall be required to submit continuous, two-sided quotes in such option series until such time as the Lead Market Maker submits his/her quote, after which the Phlx Electronic Market Maker that submitted such quote shall be obligated to submit quotations pursuant to Options 2, Section 5.

(v) The Opening Process will stop and an option series will not open if the ABBO becomes crossed or when a Valid Width Quote(s) pursuant to paragraph (d)(i) is no longer present. Once each of these conditions no longer exist, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below.

**(e) Reopening After a Trading Halt.** The procedure described in this Rule will be used to reopen an option series after a trading halt. If there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (d).

**(f) Opening with a PBBO (No Trade).** If there are no opening quotes or orders that lock or cross each other and no routable orders locking or crossing the ABBO, the System will open



with an opening quote by disseminating the Exchange's best bid and offer among quotes and orders ("PBBO") that exist in the System at that time, unless all three of the following conditions exist: (i) a Zero Bid Market; (ii) no ABBO; and (iii) no Quality Opening Market. If all of these conditions exist, the Exchange will calculate an Opening Quote Range pursuant to paragraph (j) and conduct the Price Discovery Mechanism pursuant to paragraph (k) below.

(g) **Pre-Market BBO Calculation.** If there are opening Valid Width Quotes or orders that lock or cross each other, the System will calculate the Pre-Market BBO.

(h) **Potential Opening Price.** To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps), except All-or-None interest that cannot be satisfied, for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (i)(A)(iii) and (j)(5) - (7) below contain additional provisions related to Potential Opening Price.

(A) More Than One Potential Opening Price. When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price.

(B) If two or more Potential Opening Prices for the affected series would satisfy the maximum quantity criterion and leave contracts unexecuted, the Opening Price will be either the lowest executable bid or highest executable offer of the largest sized side.

(C) The Potential Opening Price calculation is bounded by the better away market price that may not be satisfied with the Exchange routable interest.

(i) **Opening with Trade.** (A) The Exchange will open the option series for trading with a trade on Exchange interest only at the Opening Price, if any of these conditions occur:

(i) the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO;

(ii) the Potential Opening Price is at or within the non-zero bid ABBO if the Pre-Market BBO is crossed; or

(iii) where there is no ABBO, the Potential Opening Price is at or within the Pre-Market BBO which is also a Quality Opening Market.

(B) If there is more than one Potential Opening Price which meets the conditions set forth in (A) above where:

(1) no contracts would be left unexecuted and

(2) any value used for the mid-point calculation (which is described in subparagraph (g) above) would cross either:

(a) the Pre-Market BBO, or

(b) the ABBO.

then, for the purposes of calculating the midpoint the Exchange will use the better of the Pre-Market BBO or ABBO as a boundary price and will open the option series for trading with an execution at the resulting Potential Opening Price. If these conditions are not met, an Opening Quote Range will be calculated pursuant to paragraph (j) below and thereafter, the Price Discovery Mechanism in paragraph (k) below will commence.

(j) The System will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above.

(1) Except as provided in paragraphs (3) and (4) below, to determine the minimum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the highest quote bid among Valid Width Quotes on the Exchange and on the away market(s), if any.

(2) Except as provided in paragraphs (3) and (4) below, to determine the maximum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be added to the lowest quote offer among Valid Width Quotes on the Exchange and on the away market(s), if any.

(3) If one or more away markets are disseminating a BBO that is not crossed (the Opening Process will stop and an options series will not open if the ABBO becomes crossed pursuant to (d)(v)) and there are Valid Width Quotes on the Exchange that are executable against each other or the ABBO:

(a) The minimum value for the OQR will be the highest away bid.

(b) The maximum value for the OQR will be the lowest away offer.

(4) If there are Valid Width Quotes on the Exchange that are executable against each other, and there is no away market disseminating a BBO in the affected option series:

(a) The minimum value for the OQR will be the lowest quote bid among Valid Width Quotes on the Exchange.

(b) The maximum value for the OQR will be the highest quote offer among Valid Width Quotes on the Exchange.

(5) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, any price used for the mid-point calculation (which is described in subparagraph (h) above) that is wider than the OQR will be restricted to the OQR price on that side of the market for the purposes of the mid-point calculation.

(6) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted pursuant to paragraph (h)(C) above when contracts will be routed, the System will use the away market price as the Potential Opening Price.

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (h) above. The System will consider routable Public Customer and Professional interest in price/time priority to satisfy the away market.

**(k) Price Discovery Mechanism.** If the Exchange has not opened pursuant to paragraphs (f) or (i) above, after the OQR calculation in paragraph (j), the Exchange will conduct the following Price Discovery Mechanism.

(A) First, the System will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance (unmatched contracts), size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.

(B) Any new interest received by the System will update the Potential Opening Price. If during or at the end of the Imbalance Timer, the Opening Price is at or within the OQR, the Imbalance Timer will end and the System will open with a trade at the Opening Price if the executions consist of Exchange interest only without trading through the ABBO and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price. If no new interest comes in during the Imbalance Timer and the Potential Opening Price is at or within OQR and does not trade through the ABBO, the Exchange will open with a trade at the end of the Imbalance Timer at the Potential Opening Price.

(C) Next, provided the option series has not opened pursuant to (k)(B) above, the System will:

(1) send a second Imbalance Message with a Potential Opening Price that is bounded by the OQR (and would not trade through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price) and includes away market volume in the size of the imbalance to participants; and concurrently

(2) initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the System which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price, the System will open with trades and the Route Timer will simultaneously end. The System will monitor quotes received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

(3) If no trade occurred pursuant to (2) above, when the Route Timer expires, if the Potential Opening Price is within OQR (and would not trade through the limit price(s) of interest within OQR that is unable to be fully executed at the Opening Price), the System will determine if the total number of contracts displayed at better prices than the Exchange's Potential Opening Price on away markets ("better priced away contracts") would satisfy the number of marketable contracts available on the Exchange. The Exchange will open the option series by routing and/or trading on the Exchange, pursuant to (i)-(iii) below.

(i) If the total number of better priced away contracts would satisfy the number of marketable contracts available on the Exchange on either the buy or sell side, the System will route all marketable contracts on the Exchange to such better priced away markets as an Intermarket Sweep Order ("ISO") designated as an Immediate-or-Cancel ("IOC") order(s), and determine an opening Phlx Best Bid/Offer ("PBBO") that reflects the interest remaining on the Exchange. The System will price any contracts routed to away markets at the Exchange's Opening Price; or

(ii) If the total number of better priced away contracts would not satisfy the number of marketable contracts the Exchange has, the System will determine how many contracts it has available at the Exchange Opening Price. If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price would satisfy the number of marketable contracts on the Exchange on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Opening Price and trade available contracts on the Exchange at the Exchange Opening Price. The System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price pursuant to this sub-paragraph; or

(iii) If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price plus the contracts available at away markets at the Exchange Opening Price would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the

better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at away markets at prices equal to the Exchange Opening Price.

(4) The System may send up to two additional Imbalance Messages (which may occur while the Route Timer is operating) bounded by OQR and reflecting away market interest in the volume. After the Route Timer has expired, the processes in paragraph (3) will repeat (except no new Route Timer will be initiated).

(5) Forced Opening. After all additional Imbalance Messages have occurred pursuant to paragraph (4) above, the System will open the series by executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated size, trading available contracts on the Exchange at the Exchange Opening Price bounded by OQR (without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price), and routing contracts to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted contracts from the imbalance not traded or routed will be cancelled back to the entering participant if they remain unexecuted and priced through the Opening Price, unless the member that submitted the original order has instructed the Exchange in writing to reenter the remaining size, in which case the remaining size will be automatically submitted as a new order. All other interest will be eligible for trading after opening.

(6) The System will execute orders at the Opening Price that have contingencies (such as, without limitation, all-or-none) and non-routable orders, such as a "Do Not Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency Public Customer and Professional orders.

(D) The System will re-price Do Not Route orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new PBBO.

(E) During the opening of the option series, where there is an execution possible, the System will give priority to Market Orders first, then to resting Limit Orders and quotes. The allocation provisions of Options 3, Section 10 will apply.

(F) Upon opening of an option series, regardless of an execution, the System disseminates the price and size of the Exchange's best bid and offer (PBBO).

## **Section 9. Trading Halts**

(a) Automated Trading Halts. Trading will automatically be halted by the System in an option when:

(1) trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market or is subject to a regulatory halt on the primary market;

(2) the opening of such underlying stock or Exchange-Traded Fund Share has been delayed because of unusual circumstances; or

(3) trading in the underlying stock or Exchange-Traded Fund Share has been paused by the primary market.

(b) Manual Trading Halt. Trading on the Exchange in any class of option contracts shall be halted whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

(1) occurrence of an act of God or other event outside the Exchange's control;

(2) a Trading System (for purposes of this Rule, "Trading System" or "System" is defined as the Exchange's current automated System or any other Exchange quotation, transaction reporting, execution, order routing or other Systems for trading options) technical failure or failures including, but not limited to, the failure of a part of the central processing System, a number of member or member organization trading applications, or the electrical power supply to the System itself or any related System; or

(3) other unusual conditions or circumstances are present.

Manual Authority. An Options Exchange Official shall have the authority, respecting a particular class or series of options, to delay the opening, to halt and reopen after a halt, to open where the underlying stock or Exchange-Traded Fund Share has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

(c) In the event the Exchange halts trading pursuant to paragraphs (a) or (b) above, all trading in the affected option shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

No member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect.

(d) Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it

may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

(1) The Exchange will not open an affected option.

(2) After the opening, the Exchange shall reject Market Orders, as defined in Options 8, Section 32(a) (including Complex Orders, as defined in Options 3, Section 14), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.

(3) After the opening, the Exchange shall elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection.

(4) When evaluating whether a Market Maker or Lead Market Maker has met the continuous quoting obligations of Options 2, Section 5(c)(2)(A) and (B), respectively, in options overlying NMS stocks, the Exchange will not consider as part of the trading day the time that an NMS stock underlying an option was in a Limit State or Straddle State.

(5) Electronic trades are not subject to an obvious error or catastrophic error review pursuant to Options 3, Section 20(c) or (d). Nothing in this provision shall prevent electronic trades from review on Exchange motion pursuant to Options 3, Section 20(c)(3), or subject to nullification or adjustment pursuant to Options 3, Section 20(e) - (k).

(e) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

(f) During a halt, the Exchange will maintain existing orders on the book (but not existing quotes), except as noted in Options 5, Section 4, accept orders and quotes, and process cancels. During a halt, existing quotes are cancelled and auction orders and auction responses, as well as Crossing Orders, are rejected.

(g) Resumption of Trading After a Halt. Trading in an option that has been the subject of a halt under this rule shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary market for the underlying stock or Exchange-Traded Fund Share after ten minutes have passed since the underlying stock or Exchange-Traded Fund Share was paused by the primary market, trading in such options contracts may be resumed by the Exchange if the underlying stock or Exchange-

Traded Fund Share has resumed trading on at least one exchange. Trading shall resume according to the process set forth in Options 3, Section 8.

### **Section 10. Electronic Execution Priority and Processing in the System**

(a) Execution Algorithm - The Exchange will apply a Size Pro-Rata execution algorithm to electronic orders, unless otherwise specified. The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. If the result is not a whole number, it will be rounded down to the nearest whole number, unless otherwise specified. Size Pro-Rata Priority shall mean that resting orders and quotes in the order book are prioritized according to price. If there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes proportionally according to size, based on the total number of contracts available to be executed at that price.

(1) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange will apply the following designated market participant priority overlays. No participant shall be entitled to receive a number of contracts that is greater than the displayed size that is associated with their quotation or order.

(A) **Public Customer Priority:** the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer interest at the same price, provided the Public Customer order is an executable order. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System.

(B) **Enhanced Lead Market Maker Priority:** A Lead Market Maker may be assigned by the Exchange in each option class in accordance with Options 2, Section 12. After all Public Customer orders have been fully executed, provided the Lead Market Maker's quote is at the better of the internal PBBO, excluding All-or-None Orders that cannot be satisfied, or the NBBO the Lead Market Maker may be afforded a participation entitlement. The Lead Market Maker shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such Lead Market Maker. The Lead Market Maker shall be entitled to receive the allocation described in this paragraph (a)(1)(B)(i), unless the order is a Directed Order and the Lead Market Maker is not the Directed Market Maker.

(i) When the Lead Market Maker is at the same price as an SQT, RSQT or non-SQT Market Maker (collectively "Market Makers") and the number of contracts is greater than 5, the Lead Market Maker shall receive the greater of:

(a) (i) 60% of remaining interest if there is one other Market Maker at that price;(ii) 40% of remaining interest if there are two other Market Makers at that price; or (iii) 30% of remaining interest if there are more than two other Market Makers at that price ( the "Lead Market Maker Participation Entitlement"); or



(b) the Lead Market Maker's Size Pro-Rata share under subparagraph (a)(1)(E) ("Market Maker Priority"); or

(c) the Directed Market Maker participation entitlement, if any, set forth in subparagraph (a)(1)(C) below (if the order is a Directed Order and the Lead Market Maker is also the Directed Market Maker) ("Directed Market Maker Priority").

When the Lead Market Maker is also the DROT the Lead Market Maker/Directed Market Maker does not participate in the below Market Maker Priority at (a)(i)(E).

**(C) Directed Market Maker Priority:** After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker's quote or market maker order is at the better of the internal PBBO excluding All-or-None Orders that cannot be satisfied, or the NBBO, the Directed Market Maker will be afforded a participation entitlement.

(i) When the Directed Market Maker is at the same price as an SQT, RSQT or non-SQT Market Maker (collectively "Market Makers"), pursuant to the Directed Market Maker participation entitlement, the Directed Market Maker shall receive, with respect to a Directed Order, the greater of:

(a) 40% of remaining interest; or

(b) the Directed Market Maker's Size Pro-Rata share under subparagraph (a)(1)(E) ("Market Maker Priority"); or

(c) the Lead Market Maker Participation Entitlement in subparagraph (a)(1)(B), if the Directed Market Maker is also the Lead Market Maker

When a Directed Market Maker Priority is applied, the Directed Market Maker does not participate in the below Market Maker Priority at (a)(i)(E).

If there are multiple quotes or orders for the same Directed Market Maker at the same price which are at the better of the internal PBBO, excluding All-or-None Orders that cannot be satisfied, or the NBBO when the Directed Order is received, the Directed Market Maker participation entitlement shall apply only to the Directed Market Maker quote or order which has the highest priority. The Directed Market Maker quote or order that received the Directed Order may not receive any further allocation of the Directed Order, except as noted in subparagraph (a)(1)(E) below. If rounding would result in an allocation of less than one contract, the Directed Market Maker shall receive one contract.

**(D) Entitlement for Orders of 5 contracts or fewer.** This Entitlement for Orders of 5 contracts or fewer shall be allocated to the Lead Market Maker as described below. The

allocation will only apply after the Opening Process and shall not apply to auctions. A Lead Market Maker is not entitled to receive a number of contracts that is greater than the size that is associated with its quote. On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 25%.

(i) A Lead Market Maker is entitled to priority with respect to Orders of 5 contracts or fewer, including when the Lead Market Maker is also the Directed Market Maker, if the Lead Market Maker has a quote at the better of the internal PBBO, excluding All-or-None Orders that cannot be satisfied, or the NBBO, with no other Public Customer or Directed Market Maker interest with a higher priority.

(ii) If the Lead Market Maker's quote is at the better of the internal PBBO, excluding All-or-None Orders that cannot be satisfied, or the NBBO, with other Public Customer (including when the Lead Market Maker is also the Directed Market Maker) or other Directed Market Maker interest with a higher priority at the time of execution, a Lead Market Maker is not entitled to priority with respect to Orders of 5 contracts or fewer, however the Lead Market Maker is eligible to receive such contracts pursuant to paragraph (a)(1)(E); thereafter orders will be allocated pursuant to paragraph (a)(1)(F).

(E) **Market Maker Priority:** After all Public Customer orders have been fully executed, provided the Public Customer order is an executable order, and Lead Market Maker Participation Entitlement or Directed Market Maker Priority are applied, if applicable, remaining Market Maker interest shall have priority over all other orders at the same price. If there are two or more Market Maker quotes or orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm.

(F) **Odd Lot Allocation:** If there are contracts remaining after Market Maker Priority is applied, such contracts shall be allocated by randomly assigning all Market Makers (including the Lead Market Maker or Directed Market Maker) an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker, is at the best price at which the order, quote or sweep is being traded.

(G) **All Other Remaining Interest:** If there are contracts remaining after all Market Maker interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm. In the event that there are remaining contracts to be allocated for interest after rounding, which includes orders of all remaining market participants, such remaining contracts will be allocated in time priority provided the interest is at the best price at which the order is being traded.

(2) A market maker is entitled only to an Enhanced Lead Market Maker Allocation pursuant to paragraph (a)(1)(B) or the Entitlement for Orders of 5 contracts or fewer pursuant to

paragraph (a)(1)(D) on a quote or the Directed Market Maker Priority pursuant to paragraph (a)(1)(C) on a quote or market maker order.

**(b) Zero-Bid Option Series.** In the case where the bid price for any options series is \$0.00, a Market Order accepted into the System to sell that series shall be considered a Limit Order to sell at a price equal to the minimum trading increment as defined in Options 3, Section 3. Orders will be placed on the Limit Order book in the order in which they were received by the System. With respect to Market Orders to sell which are submitted prior to the Opening Process and persist after the Opening Process, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section 3.

## **Section 11. Reserved**

### **Section 12. Electronic Qualified Contingent Cross Order**

(a) A Qualified Contingent Cross Order is comprised of an originating electronic order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

(1) Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no Public Customer orders are at the same price on the Exchange's Limit Order book and (ii) the price is at or between the better of the PBBO and the NBBO.

(A) Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.

(B) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

(2) Qualified Contingent Cross Orders shall only be submitted electronically from off the Floor to the System. Order Entry Firms must maintain books and records demonstrating that each Qualified Contingent Cross Order was routed to the Exchange System from off of the Floor. Any Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered from on the Floor in violation of this Rule.

(3) A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:

(A) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(B) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(C) the execution of one component is contingent upon the execution of all other components at or near the same time;

(D) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(E) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(F) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

### Supplementary Material to Options 3, Section 12

.01 Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of QCC Orders. All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of QCC Orders, except that an incoming QCC Order with a size greater than or equal to the size of a resting Public Customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

### Section 13. Price Improvement XL ("PIXL")

A member may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in sub-paragraph (a)(6) below) it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule. The contract size specified herein as applicable to PIXL Orders shall apply to Mini Options. The execution of a PIXL Order that is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity will be governed by Rule 1087(a) and (f) ("Public Customer-to-Public Customer Cross Order").

(a) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PIXL. A member (the "Initiating Member") may initiate an Auction provided all of the following are met:

(1) If the PIXL Order (except if it is a Complex Order) is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") is \$0.01, the Initiating Member must stop the entire PIXL Order at one minimum price improvement increment better than the NBBO on the opposite side of the market from the PIXL Order, and better than any Limit Order on the Limit Order book on the same side of the market as the PIXL Order.

(2) If the PIXL Order (except if it is a Complex Order) is for the account of a Public Customer and such order is for 50 option contracts or more, or if the difference between

the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is equal to or better than the NBBO and the internal market BBO (the "Reference BBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any Limit Order on the Limit Order book on the same side of the market as the PIXL Order.

(3) If the PIXL Order (except if it is a Complex Order) is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (A) the Reference BBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (B) the PIXL Order's limit price (if the order is a Limit Order), provided in either case that such price is at or better than the NBBO and the Reference BBO.

(4) If the PIXL Order is a Complex Order and of a conforming ratio, as defined in Options 3, Section 14(a)(i) and (a)(ix), the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (A) available on the Complex Order book regardless of the Complex Order book size; and (B) achievable from the best Phlx bids and offers for the individual options (an "improved net price"), provided in either case that such price is equal to or better than the PIXL Order's limit price. Complex Orders consisting of a ratio other than a conforming ratio will not be accepted. This subparagraph (4) shall apply to all Complex Orders submitted into PIXL.

(5) PIXL Orders that do not comply with the requirements of sub-paragraphs (1), (2), (3), and (4) above are not eligible to initiate an Auction and will be rejected.

(6) PIXL Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.

(7) PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected.

(8) An Initiating Order may not be a solicited order for the account of any Exchange Lead Market Maker, SQT, RSQT or non-streaming Market Maker assigned in the affected series.

If any of the above criteria are not met, the PIXL Order will be rejected. Pursuant to paragraph (f), the Exchange will allow a Public Customer-to-Public Customer PIXL Order to trade on either the bid or offer, if the NBBO is \$0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting Public Customer at the execution price, and (3) \$0.01 is the Minimum Price Variation (MPV) of the option. The Exchange will continue to reject a PIXL Order to buy (sell) if the NBBO is only \$0.01 wide

and the Agency order is stopped on the bid (offer) if there is a resting order on the bid (offer).

(b) Auction Process. Only one Auction may be conducted at a time in the same series or same strategy, otherwise the orders will be rejected. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and PIXL Auction Notification ("PAN").

(A) To initiate the Auction (except if it is a Complex Order), the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a "stop price"); (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PIXL Order will be stopped at the better of the NBBO or the Reference BBO on the Initiating Order side; or (iii) that it is willing to either: a) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); b) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or c) stop the entire order at the better of the NBBO or Reference BBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a Limit Order on the book, the stop price must be at least one minimum price improvement increment better than the booked Limit Order's limit price. Once the Initiating Member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (i)-(iii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution.

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(i). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Order

are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

(B) To initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (ii) that it is willing to either: a) stop the entire order at a single stop price and automatch PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or (b) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price. Once the Initiating Member has submitted a PIXL Complex Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (i)-(ii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

When starting a PIXL Complex Order Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(iv). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Complex Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

(C) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side and size and option series of the PIXL Order will be sent over the Exchange's TOPO data feed pursuant to Options 3, Section 23(a)(1) and Specialized Quote Feed pursuant to Options 3, Section (a)(i)(B).

(D) The Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.

(E) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

(F) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.

(G) (i) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price (except if it is a Complex Order) shall be .01.

(ii) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price in the case of a Complex Order shall be .01.

(H) A PAN response size at any given price point may not exceed the size of the PIXL Order. A PAN response with a size greater than the size of the PIXL Order will be immediately cancelled.

(I) A PAN response (except if it is a Complex Order) must be equal to or better than the NBBO and the Reference BBO at the time of receipt of the PAN response. A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Options 3, Section 14(a) at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the better of the NBBO or Reference BBO will be immediately cancelled. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be cancelled.

(J) PAN responses on the same side of the market as the PIXL Order are considered invalid and will be immediately cancelled.

(K) Multiple PAN responses from the same member may be submitted during the Auction. Multiple orders at a particular price point submitted by a member in response to a PAN may not exceed, in the aggregate, the size of the PIXL Order.

(2) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (A) through (D) below, with the PIXL Order executing pursuant to paragraph (2)(A) through (D) below.

(A) The end of the Auction period;

(B) For a PIXL Auction (except if it is a Complex Order), any time the Reference BBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order;

(C) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order (defined for these purposes as a "Complex PIXL Order" or, as the context requires, a "PIXL Order"); or

(D) Any time there is a trading halt on the Exchange in the affected series.

(3) If the situations described in sub-paragraphs (2)(B), (C), or (D) above occur, the entire PIXL Order will be executed at: (A) in the case of the Reference BBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a Limit Order resting on the PHLX book on the same side of the market as the



PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least one minimum price improvement increment better than the price of such Limit Order at the time of the conclusion of the Auction; (B) in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order, the stop price against executable PAN responses and executable Complex Orders using the allocation algorithm in sub-paragraph (5)(B)(iv)(a) through d); or (C) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PIXL Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

(4) An unrelated market or marketable Limit Order (against the PBBO) on the opposite side of the market from the PIXL Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. In the case of a Complex PIXL Auction, an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order as well as orders for the individual components of the Complex Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (5) below.

(5) **Order Allocation.** At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s) as follows:

(A) Public Customer orders shall have priority at each price level.

(B) After Public Customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses as follows:

(i) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in Options 3, Section 10(a)(1)(G) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.

(ii) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to

receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in paragraph (a)(1). Any remaining contracts shall be allocated to the Initiating Member.

(iii) In the case of a PIXL (except if it is a Complex Order), if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

a. first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to the algorithm set forth in Options 3, Section 10(a) at each price point;

b. next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in paragraph Options 3, Section 10(a)(1). Any remaining contracts shall be allocated to the Initiating Member.

(iv) In the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Complex Orders on the PHLX Complex Order

Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated at a given price in the following order: a) to Public Customer Complex Orders and PAN responses in time priority; b) to SQT, RSQT, and Floor Market Maker Complex Orders and PAN responses on a size pro-rata basis; c) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and d) to quotes and orders which comprise the cPBBO at the end of the Auction with Public Customer interest being satisfied first in time priority, then to SQT, RSQT, and Floor Market Maker interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. If the final price point is equal to the stop price, the Initiating Member will be allocated 40% (or 50% if matching only one other participant) after Public Customer Complex Orders and PAN responses have been satisfied, thereafter the allocation will continue as stipulated in b) through d) of this sub-paragraph. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.

(v) In the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

a. First to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, if such cPBBO is better than the NWT price, pursuant to the algorithm set forth above in (b)(5)(B)(iv)a) through d) of this rule;

b. Next, to Complex Orders and PAN responses, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after Public Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after Public Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (b)(5)(B)(iv)a) through d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.

(vi) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size. Where the allocation of contracts results in remaining amounts, the number of contracts to be allocated shall be rounded down to the nearest integer. If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating Member only if the Initiating Member did not otherwise receive an allocation. If there are contracts remaining, such contracts shall be allocated for simple interest after rounding by randomly assigning all Market Makers an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker is at the best price at which the order, quote or sweep is being traded, except with respect to Complex Orders, which allocation is described in Options 3, Section 14. In the event that there are remaining contracts to be allocated for interest after rounding, such remaining contracts will be allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. Remaining shares will be allocated in time priority for Complex Orders. The allocation will account for Surrender, if applicable.

(vii) A Complex PIXL Order consisting of a stock/ETF component will not execute against interest comprising the cPBBO at the end of the Auction.

(6) If there are PAN responses (except if it is a Complex Order) that cross the then existing better of the Reference BBO and NBBO (provided such NBBO is not crossed) or Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s).

(7) If the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the Limit Order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

(8) If the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

(9) Any unexecuted PAN responses will be cancelled.

(10) Complex PIXL Orders with stock/ETF components.

(i) Member organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such

orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade orders containing a stock/ETF component.

(ii) Where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order (together with the Initiating Order, Complex Order, or PAN response, as applicable) to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading.

(iii) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Initiating Order, Complex Order, and/or PAN response to the entering member organization. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

(11) *PIXL ISO Order.* A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids/Offer (as defined in Options 5, Section 1) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange's book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order.

(c) The PIXL Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Initiating Member submits a PIXL Order (initiating an Auction) and also submits its own PAN response in the same Auction.

(d) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PIXL Order, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section.

(e) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PIXL Auction to conclude before the end of the PIXL Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section to engage in a pattern of conduct where the Initiating Member breaks up a PIXL Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in subparagraph (b)(5) above.

(f) In lieu of the procedures in paragraphs (a) - (b) above, an Initiating Member may enter a PIXL Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting Public Customer Complex Order.

Options 3, Section 22(b)(1) prevents an Order Entry Firm from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Options 3, Section 22(b)(1) for a firm to circumvent Options 3, Section 22(b)(1) by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PIXL customer-to-customer immediate crosses.

(g) There will be no minimum size requirement for orders to be eligible for the Auction.

#### **Section 14. Complex Orders**

##### **(a) Definitions**

(i) Complex Order. For purposes of the electronic trading of Complex Orders, a Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the

relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. With respect to Mini Options, a Complex Order is an order involving the simultaneous purchase and/or sale of two or more different Mini Options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. Mini Options may only be part of a Complex Order that includes other Mini Options.

Except respecting Mini Options, a Complex Order can also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery. Stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components. Member organizations may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such Complex Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade Complex Orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade Complex Orders containing a stock/ETF component.

The maximum number of components of a Complex Order is six. A stock-option order may include up to five options components (legs).

(ii) Complex Order Strategy. The term "Complex Order Strategy" means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System.

(iii) PBBO. The term "PBBO" means the Phlx Best Bid and/or Offer for individual option series.

(iv) cPBBO. The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.

(v) NBBO. The term "NBBO" means the National Best Bid and/or Offer for an individual option series.

(vi) cNBBO. The term "cNBBO" means the best net debit or credit price for a Complex Order Strategy based on the NBBO for the individual options components of a Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.

(vii) Participant, Phlx market maker and Phlx electronic market maker. The term "participant" means SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange; Public Customers, Professionals, Firms and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Based Management System. The term "Phlx market maker" means SQTs, RSQTs, Lead Market Makers and Floor Market Maker. The term "Phlx electronic market maker" means SQTs, RSQTs and Lead Market Makers.

(viii) Do Not Auction. The term "Do Not Auction" means that this Complex Order is not "COLA-eligible," as defined in (d)(ii)(B) below and thus prevents it from triggering a Complex Order Live Auction, pursuant to paragraph (e) below, or joining one that is in progress.

(A) DNA Orders received prior to the opening or when the Complex Order Strategy is not available for trading will be cancelled.

(B) DNA Orders are cancelled if not immediately executed.

(C) DNA Orders will initially only be available for Complex Orders consisting of more than two options components or where the underlying security is a component; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, DNA Orders will also become available for Complex Orders consisting of two options components.

(ix) Conforming ratio. The term "conforming ratio" is where the ratio between the sizes of the options components of a Complex Order is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.00) ratio is a conforming ratio, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not; where one component of the Complex Order is the underlying security, the ratio between any options component and the underlying security component must be less than or equal to eight contracts to 100 shares of the underlying security.

(x) Firm. The term "Firm" means a broker-dealer trading for its own (proprietary) account that is: a member of The Options Clearing Corporation ("OCC") or maintains a Joint Back Office ("JBO") arrangement with an OCC member. Unless otherwise specified, Firms are included in the category of non-market-maker off-floor broker-dealer.

(b) Complex orders may be entered in increments of \$0.01 with certain "time in force" designations and as certain order types with certain contingencies as follows:



(i) Public Customers and Professionals and non-market maker off-floor broker-dealers may enter the Complex Orders listed in paragraph (a) above as Day, Good Til Cancelled ("GTC") or Immediate or Cancel ("IOC") as those terms are defined in Options 3, Section 7(c).

(ii) SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as IOC only. In addition, for Complex Orders consisting of more than two options components or where the underlying security is a component, SQTs, RSQTs, non- SQT Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as Day orders; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, Day orders will also become available for Complex Orders consisting of two options components.

(iii) Floor Brokers using the Options Floor Based Management System may enter the Complex Orders listed in paragraph (a) above as Day, GTC or IOC on behalf of Public Customers, Professionals and non-market-maker off-floor broker-dealers, and as IOC only on behalf of SQTs, RSQTs, Floor Market Makers, Lead Market Makers, non- Phlx market makers on another exchange and Firms.

(iv) Member organizations must mark the stock/ETF component of a Complex Order "long," "short," or "short exempt" in compliance with Regulation SHO under the Exchange Act.

(c)(i) A Complex Order is eligible to trade on the System only when each options component of the Complex Order is open for trading on the Exchange, and where the underlying security is a component of the Complex Order, such underlying security is open for trading on its primary market. Complex Orders may be executed against the Complex Order Book (as defined below) or placed on the Complex Order Book. Certain Complex Orders will be entered into a Complex Order Live Auction (as defined below) either following a Complex Order Opening Process (as defined below) or when a Complex Order improves the cPBBO.

(ii) Complex Orders will not trade on the System under the following conditions:

(A) the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order;

(B) during an opening rotation for any options component of the Complex Order;

(C) during a trading halt for any options component of the Complex Order;

(D) Reserved.

(E) when an automatic removal of quotes occurs in any options component of the Complex Order that represents all or a portion of the PBBO; or

(F) when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Options 3, Section 6(a)(ii)(B).

Once the condition(s) set forth in sub-paragraphs (A) - (F) above have terminated, the System will begin a Complex Order Opening Process.

(iii) Spread Priority. (A) Complex Orders consisting of a conforming ratio may be executed at a total credit or debit price without giving priority to individual bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that if any of the bids or offers established in the marketplace consist of a Public Customer order, at least one option leg is executed at a better price than the established bid or offer for that option contract by the minimum trading increment and no option leg is executed at a price outside of the established bid or offer for that option contract.

(B) Where a Complex Order in a conforming ratio consists of the underlying security (stock or ETF) and one options leg, such options leg has priority over bids or offers established in the marketplace, except over bids or offers established by Public Customer orders. However, where a Complex Order in a conforming ratio consists of the underlying stock or ETF and more than one options leg, the options legs have priority over bids and offers established in the marketplace, including Public Customer orders, if at least one options leg improves the existing market for that option.

(C) Options 5, Section 2 shall apply to all Complex Order executions. Accordingly, Complex Orders with conforming ratios are eligible for the exception contained in Options 5, Section 2(b)(viii) and therefore may trade through the NBBO for that option.

(D) This paragraph (c) shall apply to all Complex Order executions, whether executed in a Complex Order Live Auction or otherwise.

(d) Complex Order Opening Process ("COOP").

(i) The System will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the CBOOK (as defined below). There will be one such COOP per Complex Order Strategy.

(ii) Once trading in each option component of a Complex Order Strategy has opened or reopened following a trading halt for a certain configurable time not to exceed 60 seconds (and none of the conditions described in paragraph (c)(ii) above exist), the System will initiate the COOP for that Complex Order Strategy, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening of that Complex Order Strategy, unless that Complex Order Strategy is already open as a result of another electronic auction process or another electronic auction involving the same Complex Order Strategy is in progress. Following a trading halt, a COOP will be conducted for any Complex Order Strategy that has a Complex Order present or had

previously opened prior to the trading halt. The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (as defined below).

(A) COOP Timer.

(1) The Exchange will send a broadcast message indicating that a COOP has been initiated for that Complex Order Strategy. The broadcast message will identify the Complex Order Strategy, the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the imbalance side and volume, if any ("Complex Order Opening Auction Notification").

The Complex Order Opening Auction Notification starts a COOP Timer ("COOP Timer"), which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B) below.

(2) Reserved.

(3) Complex Orders in such a Complex Order Strategy that are received during the COOP Timer and COOP Evaluation (as described below) will reside on the CBOOK (as defined below).

(4) Complex Orders received prior to the COOP Timer and Complex Orders received during the COOP Timer (other than COOP Sweeps and Complex Order Responses marked as a response) will be visible to participants upon receipt.

(5) Complex Orders in a Complex Order Strategy marked as IOC received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. DNA Orders received during a COOP will be cancelled and will not participate in the COOP. Complex Orders marked as IOC and DNA Orders received before the initiation of the COOP in that Complex Order Strategy will be cancelled and will not participate in the COOP; however, a COOP will occur in that Complex Order Strategy.

(B) Responses. In response to a Complex Order Opening Auction Notification, participants may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders in increments of \$0.01 ("Complex Order Response").

Phlx electronic market makers may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more bids and/or offers known as

COOP Sweeps. A COOP Sweep is a one-sided electronic order (IOC) entered by a Lead Market Maker or Market Maker through SQF at a particular price submitted for execution against opening trading interest in a particular Complex Order Strategy.

(1) A Phlx electronic market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in subparagraph (2) below) in increments of \$0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.

(2) Phlx electronic market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx electronic market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx electronic market maker's COOP Sweep from that COOP at that price level.

(3) COOP Sweeps and Complex Order Responses marked as a response will not be visible to any participant and will not be disseminated by the Exchange. Any COOP Sweeps which remain unexecuted at the end of the COOP Timer once all executions are complete will expire. A Complex Order Response will expire if unexecuted at the end of the COOP Timer once all executions are complete, but a Complex Order submitted during the COOP Timer which is not marked as a response will be available to be traded after the opening of a Complex Order Strategy unless it is marked IOC. Such Complex Order will be placed on the CBOOK if not executed during the opening.

(C) COOP Evaluation. Upon expiration of the COOP Timer, the System will conduct a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked All-or-None (which will be executed if possible) unless the maximum number of contracts can only trade without including All-or-None Orders. The Exchange will open the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to Public Customers in time priority; next to Phlx electronic market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.

(1) No trade possible. If at the end of the COOP Timer the System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in paragraph (f) below.

(2) Trade is possible. If at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the System, the System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the net price without trading through residual interest or the cPBBO or without trading at the cPBBO where there is Public Customer interest at the best bid or offer for any leg, consistent with paragraph (c)(iii).

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or Limit Orders on the Limit Order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below).

(3) The Complex Order Strategy will be open after the COOP even if no executions occur.

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) For purposes of paragraph (e):

(A) COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order during normal trading if the System receives a Complex Order that improves the cPBBO.

(B) (1) A "COLA-eligible order" means a Complex Order that is not for a market maker, as specified in paragraph (b)(ii) or for a Firm, as defined in paragraph (a)(x). If the System identifies the existence of a COLA-eligible order, such COLA-eligible order will initiate a COLA, during which participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) Notwithstanding the foregoing, a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL auction in progress or by the System during the final seconds of any trading session shall not be COLA-eligible. The Exchange shall establish the number of seconds, not to exceed 10 seconds, in an Options Trader Alert.

(ii) Initiation of a COLA. Upon the identification of the COLA-eligible order by the System, the Exchange will send a broadcast message to participants indicating that a COLA has been initiated. The broadcast message will identify the Complex Order Strategy, and the size, side and price of the COLA-eligible order.

(iii) COLA Timer. The COLA will begin with a timing mechanism (a "COLA Timer"), which is a counting period not to exceed five (5) seconds during which participants may submit bids or offers that improve the cPBBO. The COLA Timer will be set for the same number of seconds for all options trading on the Exchange as determined by the Exchange and communicated to membership on the Exchange's website. Complex Orders may be cancelled at any time prior to the commencement of a COLA.

(iv) Bidding and Offering in Response to a COLA. Participants may bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more Complex Orders in increments of \$0.01. Electronic market makers may also bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more bids or offers, known as a "COLA Sweep." A COLA Sweep is a one-sided electronic order (IOC) entered by a Lead Market Maker or Market Maker through SQF submitted for execution against other trading interest in a particular Complex Order Strategy. Any COLA Sweeps which remain unexecuted at the end of the COLA Timer once all executions are complete will expire.

(A) COLA Sweep Price. A single participant may submit multiple COLA Sweeps at different prices (but not multiple COLA Sweeps at the same price, except as provided in sub-paragraph (B) below) in increments of \$0.01 in response to a COLA broadcast, regardless of the minimum trading increment applicable to the specific series.

(B) Participants may change the size of a previously submitted COLA Sweep at the previously submitted COLA price during the COLA Timer. The System will use the participant's most recently submitted COLA Sweep at each price level as that participant's response at that price level, unless the COLA Sweep has a size of zero. A COLA Sweep with a size of zero will remove a participant's COLA Sweep from the COLA at that price level.

(C) COLA Sweeps and Complex Orders marked as a response will not be visible to any participant and will not be disseminated by the Exchange. A Complex Order marked as a response will expire if unexecuted at the end of the COLA Timer once all executions are complete, but a Complex Order submitted during the COLA Timer which is not marked as a response will be available to be traded unless it is marked IOC. Such Complex Order will be placed on the CBOOK if not executed in the COLA.

(D) The provisions of Options 3, Section 22 shall apply to Complex Orders and COLA Sweeps submitted under this rule.

(v) Execution of COLA-Eligible Orders. Upon the expiration of the COLA Timer, COLA Sweeps and/or any Complex Orders received during the COLA Timer that improve the cPBBO may be executed against the COLA-eligible order. The COLA-eligible order will receive the best price or prices available for the Complex Order Strategy represented by the COLA-eligible order. The components of a COLA-eligible order may be executed in one cent increments, regardless of the minimum quoting increments otherwise appropriate to the individual legs of the order. Executions in the COLA will comply with the requirements of Options 8, Section 24(e).

(vi) Allocation and Priority. As stated above, COLA-eligible orders, COLA Sweeps, and responsive Complex Orders will trade first based on the best price or prices available at the end of the COLA Timer.

(A) (1) "Legging." If no COLA Sweeps or responsive Complex Orders for the same Complex Order Strategy as the COLA-eligible order were received during the COLA Timer and there is no component that consists of the underlying security, each options component of the COLA-eligible order may trade at the PBBO with existing quotes and/or Limit Orders on the Limit Order book for the individual components of the Complex Order, provided that each component is executed such that the components comprise the Complex Order Strategy with the correct ratio for the desired net debit or credit and provided that the Complex Order is not marked all-or-none; All-or-None Orders that are not executed during the COLA are placed on the CBOOK. Trades pursuant to this paragraph will be allocated in accordance with Options 3, Section 10.

(2) If the markets for the individual components of a Complex Order Strategy independently improve during the COLA Timer and match the best price of COLA Sweep(s) and/or responsive Complex Order(s), the System will execute such COLA Sweep(s) and/or responsive Complex Orders before executing the individual components of the Complex Order Strategy.

(3) A Public Customer Complex Order will have priority over Lead Market Makers, SQTs and RSQTs and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.

(B) If multiple Complex Orders and COLA Sweeps are eligible for execution against the COLA-eligible order at the same price, the trade will be allocated among participants submitting electronic Complex Orders and COLA Sweeps as set forth below. Executions in the COLA will comply with the requirements of paragraph (c)(iii) above.

(1) First, to Public Customer marketable Complex Orders on the CBOOK (as defined below) in the order in which they were received;

(2) Second, to COLA Sweeps and SQTs, RSQTs, and Floor Market Makers who have submitted Complex Orders that are marketable against the COLA-eligible order, on a size pro-rata basis; and

(3) Third, to non-market maker off-floor broker-dealers on a size pro-rata basis.

(C) Notwithstanding the foregoing, if the Lead Market Maker submits a COLA Sweep during the COLA Timer and such COLA Sweep is for the same price as other COLA Sweeps that are eligible for execution against the COLA-eligible order, after Public Customer marketable Complex Orders have been executed against the COLA-eligible order, the Lead Market Maker shall be entitled to receive the greater of:

(1) the proportion of the aggregate size associated with such Lead Market Maker's COLA Sweep, SQT and RSQT COLA Sweeps, and Floor Market Maker Complex Orders on the CBOOK; or

(2) the Enhanced Lead Market Maker Participation as described in Options 8, Section 25.

(3) The Lead Market Maker is not entitled to receive an allocation that would exceed the size of the Lead Market Maker's COLA Sweep.

(D) If a COLA-eligible order cannot be filled in its entirety, any remaining balance will be placed on the CBOOK, subject to other instructions (i.e., cancel balance).

(vii) Firm Quote Requirement for COLA-Eligible Orders. COLA Sweeps in response to a COLA broadcast represent non-firm interest that can be modified at any time prior to the end of the COLA Timer. At the end of the COLA Timer, COLA Sweeps shall be firm only with respect to the COLA-eligible order for which it is submitted, provided that COLA Sweeps that exceed the size of a COLA-eligible order are also eligible to trade with other incoming COLA-eligible orders, COLA Sweeps and any other interest received during the COLA Timer after the initial COLA-eligible order has been executed to the fullest extent possible. Remaining interest trades as described in subparagraph (viii)(C)(3). Any COLA Sweeps not accepted in whole or in a permissible ratio will expire at the end of the COLA Timer once all executions are complete.

(viii) Complex Orders resting on the CBOOK, and incoming electronic Complex Orders and COLA Sweeps that are received prior to the expiration of the COLA Timer, (collectively, for purposes of this rule, "incoming Complex Orders") representing the same Complex Order Strategy as a COLA-eligible order will impact the original COLA as follows:

(A) At the end of the COLA Timer, the System will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA in the



priority determined paragraph 1098(e)(vi) above and based on the price determined as set forth below.

(B) Incoming Complex Orders on the same side of the market as the COLA-eligible order. Incoming Complex Orders that were received during the COLA Timer for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. The original COLA-eligible order has priority at all price points (i.e., multiple COLA Sweep Prices) over the incoming Complex Order(s), regardless of the price of the incoming Complex Order. The incoming Complex Order shall not be eligible for execution against interest on the opposite side of the market from the COLA-eligible order until the COLA-eligible order is executed to the fullest extent possible. If the incoming Complex Order is not executed in its entirety, the System will not initiate a new COLA. Any remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.

(1) Incoming Public Customer, Professional and non-market-maker off-floor broker-dealer (other than Firms)) Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA-eligible order (which will be executed to the fullest extent possible first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:

(a) If such incoming Complex Order is a Limit Order at the same price as the best priced Complex Order or COLA Sweep, the incoming Complex Order will be executed at such price.

(b) If such incoming Complex Order is a Limit Order that improved the best priced Complex Order or COLA Sweep, the incoming Complex Order will be executed at the mid-point of the best priced Complex Order or COLA Sweep and the Limit Order price, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.

(c) If such incoming Complex Order is a Market Order or a Limit Order that crosses the cPBBO, the incoming Complex Order will be executed at the mid-point of the cPBBO on the same side of the market as the COLA-eligible order and the best priced Complex Order or COLA Sweep, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.

(d) If multiple Complex Orders are received on the opposite side of the market from the COLA-eligible order, Public Customer orders at the same price will be executed in the order in which they were received, whereas non-market-maker off-floor broker-dealer orders will be executed on a pro-rata basis at each price level.

(e) If the COLA-eligible order is executed to the fullest extent possible and there are remaining bids or offers from the incoming Complex Order(s), the System will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.

(2) Incoming non-customer (Phlx market makers, Firms and non-Phlx market makers) Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA eligible order (which will be executed to the fullest extent possible first as described in subparagraph (B) above) or other Complex Orders or COLA Sweeps as follows:

(a) If such incoming non-customer Complex Order is a Limit Order at the same price as the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at such price, subject to the provisions set forth sub-paragraph (e) above.

(b) If such incoming non-customer Complex Order is a Limit Order that improved the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at the Limit Order price.

(c) If such incoming non-customer Complex Order is a Market Order or a Limit Order that crosses the cPBBO, the incoming non-customer Complex Order will be executed at a price of \$0.01 better than the cPBBO on the same side of the market as the COLA-eligible order.

(d) If multiple non-customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, Phlx market maker orders will be executed on a pro-rata basis and Firm and non-Phlx market maker orders will be executed on a pro-rata basis, at each price level.

(e) If the COLA-eligible order is executed to the fullest extent possible and there are remaining bids or offers from the incoming non-customer Complex Order(s), the System will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.

(3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep or Complex Order will be executed against the COLA-eligible order after all interest at the better price(s) has/have been executed. After the initial COLA-eligible order has been executed to the fullest extent possible, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order has been executed, there exist Complex Orders and/or COLA Sweeps on the opposite side of the market from the

COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, and if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed without trading through residual Complex interest or the cPBBO, or without trading at the cPBBO where there is Public Customer interest.

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or Limit Orders on the Limit Order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK.

The System will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(ix) Exchange members and participants quoting and trading in open outcry shall not be eligible to participate in the electronic Complex Order System. In order to participate, such members and participants must submit COLA Sweeps and/or responsive Complex Orders electronically.

(f) Complex Limit Order Book ("CBOOK")

(i) Complex Orders must be entered onto the CBOOK in increments of \$0.01. The individual components of a Complex Order may be executed in minimum increments of \$0.01, regardless of the minimum increments applicable to such components. Such orders will be placed on the CBOOK by the System when the following conditions exist:

(A) When the Complex Order does not price-improve upon the cPBBO upon receipt;

(B) When the order is received before the expiration of the Complex Order Opening Process;

(C) When the Complex Order is received during a trading halt on the Exchange for any component of the Complex Order;

(D) When the Complex Order is received while the Exchange's automated execution System is disengaged for any options component of such Complex Order;

(E) When any options component of the Complex Order is a pre-opening order; or

(F) When the Complex Order is received during the final configurable number of seconds of the trading session after any marketable portion of the Complex Order is executed.

(ii) Phlx electronic market makers may submit one or more bids and/or offers known as Sweeps. A Sweep is a one-sided electronic order entered by a Lead Market Maker or Market Maker through SQF at a particular price submitted for execution against existing interest in a particular Complex Order Strategy, including against interest on the CBOOK ("CBOOK Sweep"). Any CBOOK Sweeps which do not execute immediately will expire.

(iii) Execution of Complex Orders in the CBOOK. Complex orders in the CBOOK will be executed without consideration of any prices that might be available on other exchanges trading the same contracts.

(A) A Complex Order resting on the CBOOK will execute automatically against: (1) quotes, orders on the Limit Order book for the individual options components of the order, or sweeps, except if any of the components is the underlying security or if the Complex Order is marked all-or-none, and provided that the Complex Order can be executed in full or in a permissible ratio by such quotes or orders (allocated in accordance with Options 3, Section 10)); or (2) an incoming marketable Complex Order(s) that do(es) not trigger a COLA Timer, whichever arrives first.

(B) An incoming marketable Complex Order that does not trigger a COLA Timer will execute in the following order:

(1) First, against quotes or orders on the Limit Order book for the individual components of the order (provided that the Complex Order can be executed in full or in a permissible ratio by such quotes or orders), except if any of the components is the underlying security. Trades pursuant to this subparagraph (B)(1) will be allocated in accordance with Options 3, Section 10; and

(2) Second, against Public Customer Complex Orders and nonmarket maker broker-dealer Complex Orders resting in the CBOOK in price priority and, at the same price, against (i) non-broker-dealer customer Complex Orders in the order in which they were received; (ii) SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange on a size pro rata basis; and (iii) non-market-maker, broker-dealer and Professional Complex Orders on a size pro rata basis, provided that any execution pursuant to this paragraph (f)(iii)(B)(2) complies with the requirements of subparagraph (c)(iii) above.

(3) A Public Customer Complex Order will have priority over Lead Market Makers, SQTs and RSQTs, Professionals and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.

(C) Legging Orders. Legging Orders may be automatically generated on behalf of Complex Orders resting on the top of the CBOOK at a price that improves the cPBBO so that they are represented at the best bid and/or offer on the Exchange for the individual legs. The System will evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ("NBBO") or Phlx best bid and/or offer ("PBBO") in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty.

A Legging Order is a Limit Order on the regular order book in an individual series that represents one leg of a two-legged Complex Order (which improves the cPBBO) that is to buy or sell an equal quantity of two options series resting on the CBOOK. Legging Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and are Limit Orders with a time-in-force of DAY, as they represent an individual component of a Complex Order.

(1) A Legging Order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than Legging Orders). Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading.

(2) A Legging Order will not be created: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is an auction on either side or a Posting Period under Options 3, Section 15 regarding Acceptable Trade Range on the same side in progress in the series, (iii) the price of the Complex Order is outside of the ACE Parameter of paragraph (i), (iv) if there is already a Legging Order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules), (v) the Complex Order is an All-or-None Order, or (vi) for a Complex Order if the generated Legging Order would immediately cause resting Legging Orders to be removed pursuant to section (f)(iii)(C)(4)(ix) below. Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series. Two Legging Orders relating to the same Complex Order can

be generated, but only one of those can execute as part of the execution of a particular Complex Order.

(3) A Legging Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other leg of the Complex Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order based on that Complex Order will be removed.

(4) A Legging Order is automatically removed from the regular order book : (i) if the price of the Legging Order is no longer at the Exchange's displayed best bid or offer on the regular Limit Order book, (ii) if execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange's best displayed bid or offer on the regular Limit Order book (other than another Legging Order), (iii) if the Complex Order is executed in full or in part, (iv) if the Complex Order is cancelled or modified, (v) if the price of the Complex Order is outside the ACE Parameter of paragraph (i), (vi) upon receipt of a Qualified Contingent Cross Order which includes a component in which there is a Legging Order, an order that will trigger an auction under Exchange rules in a component in which there is a Legging Order (whether a buy order or a sell order), or pursuant to Options 3, Section 13(f) a PIXL Order for the account of a public customer paired with an order for the account of a public customer, (vii) if a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher priority, (viii) if a Complex Order is marketable against the cPBBO where a Legging Order is present and has more than one leg in common with the existing Complex Order that generated the Legging Order, (ix) if a Complex Order becomes marketable against multiple Legging Orders, (x) if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the components in the cPBBO, (xi) if an incoming All-or-None Orders is entered onto the order book at a price which is equal to or crosses the price of a Legging Order, or (xii) when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).

### **Section 15. Simple Order Risk Protections**

The following order protections apply to Simple Orders.

(a) The following are order protections on Phlx:

(1) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents certain Day Limit, Good til Cancelled, Immediate-or-Cancel, and All-or-None Orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to Market Orders, Stop-Limit Orders, Intermarket Sweep Orders or Complex Orders.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

(C) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.

(2) **Market Order Spread Protection.** Market Orders will be rejected if the best of the NBBO and the internal market PBBO (the "Reference PBBO") is wider than a preset threshold at the time the Market Order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) The following are order and quote protections on Phlx:

**(1) Acceptable Trade Range.**

(A) After the Opening Process, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-None Order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote.

(B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Options 3, Section 6(a)(ii)(B)(3) will ensue, triggering a new Reference Price. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted, a New Acceptable Trade Range will be calculated and the order/quote will

execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned). This process will repeat until either (i) the order/quote is executed, cancelled, or posted at its limit price or (ii) the order has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(C) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(c) The following protections apply to Lead Market Makers and Market Makers on Phlx:

(1) **Anti-Internalization** - Quotes and orders entered by Lead Market Makers and Market Makers (as defined in Options 2, Section 4) using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Lead Market Maker or Market Maker using the same identifier. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to complex order transactions.

(2) **Automated Quotation Adjustments.**

(A) A Lead Market Maker, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange's System ("System") will automatically remove a Market Maker's quotes in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the disseminated size, the original size quoted by the Market Maker, of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a Market Maker, not less than 1% ("Specified Percentage"), the System will automatically remove a Market Maker's quotes in all series of the underlying security submitted through designated Phlx protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage- Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes



quotes as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(B) A Lead Market Maker, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a volume threshold by which the Exchange's System will automatically remove a Market Maker's quotes in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Volume-Based Specified Time Period") when the Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the Percentage-Based Threshold. A Volume- Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Volume-Based Specified Time Period expires. A Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume- Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.

(C) A Market Maker or Market Maker Group (multiple affiliated Market Makers is a "Group" as defined by a Phlx member and provided by such member to the Exchange) may provide a Specified Time Period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period(s) established by the Market Maker not to exceed 15 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage-Based Threshold, described in (i) above, as well as the Volume-Based Threshold described in (ii) above. Once the System determines that the number of triggers equals or exceeds a number established by either the Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove in all options series in an underlying issue. A Multi- Trigger Specified Time Period will commence after every trigger of either the Percentage-Based Threshold or the Volume-Based Threshold and will continue until the System removes quotes as described in (iv) or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

(D) The System will automatically remove quotes in all options in an underlying security when the Percentage-Based Threshold or Volume-Based Threshold has been reached. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been reached. The System will send a Purge Notification Message to the Market Maker for all affected options when the above thresholds have been reached.

(i) The Percentage-Based Threshold or Volume-Based Threshold and Multi-Trigger Threshold, are considered independently of each other.

(ii) Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold.

(E) If a Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Percentage-Based Specified Time Period(s) or Volume-Based Specified Time Period(s). The Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

(F) When the System removes quotes as a result of the Percentage-Based Threshold or Volume-Based Threshold, the Market Maker must send a re-entry indicator to re-enter the System. When the System removes quotes as a result of the Multi-Trigger Threshold, the System will not accept quotes through designated protocols until the Market Maker manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Market Maker for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

(G) The Exchange will require Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold. The Multi-Trigger Threshold is optional.

## **Section 16. Complex Order Risk Protections**

(a) **Strategy Price Protection ("SPP").** SPP is a feature of the System that prevents certain Complex Order Strategies from trading at prices outside of pre-set standard limits. SPP will apply only to Vertical Spreads (defined below) and Time Spreads (defined below).

(i) **Vertical Spread.** A Vertical Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices.

(A) The SPP will calculate the maximum possible value of a Vertical Spread by subtracting the value of the lower strike price from the value of the higher strike price as between the two components. For example, a Vertical Spread consisting of the purchase

of one January 30 call and the sale of one January 35 call would have a maximum value of \$5.00. The minimum possible value of a Vertical Spread is always zero.

(B) The SPP will ensure that a Vertical Spread will not trade at a net price of less than the minimum possible value (minus a pre-set value setting an acceptable range) or greater than the maximum possible value (plus a pre-set value setting an acceptable range).

(C) The pre-set value and acceptable range will be uniform for all options traded on the Exchange as determined by the Exchange and communicated to membership on the Exchange's website.

(ii) **Time Spread.** A Time Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price.

(A) The maximum possible value of a Time Spread is unlimited. The minimum possible value of a Time Spread is zero.

(B) The SPP will ensure that a Time Spread will not trade at a price of less than zero (minus a pre-set value setting an acceptable range).

(iii) **Protection.** If the limits (on either side of the market) set forth in sub-paragraphs (i)(B) and (ii)(B) above would be violated by an execution, the System will cancel the order.

(b) Where one component of a Complex Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Order to Nasdaq Execution Services, LLC ("NES"), its designated broker dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market, which the Exchange will establish in an Options Trader Alert. If the stock price is not within these parameters, the Complex Order is not executable.

When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Order to the entering member organization. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

(i) **Acceptable Complex Execution ("ACE") Parameter.** The ACE Parameter defines a price range outside of which a Complex Order will not be executed. The ACE Parameter is

either a percentage or number defined by the Exchange and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. The Exchange will issue an Options Trader Alert ("OTA") to membership indicating the issue-by-issue ACE Parameters. The Exchange will also maintain a list of ACE Parameters on its website.

**(c) Butterfly Spread Protection.** The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(i) A Butterfly Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Butterfly Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Butterfly Spread Protection applies throughout the trading day, including pre-market, during the Opening Process and during Halts.

**(d) Box Spread Protection.** The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(i) A Box Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A

Box Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Box Spread Protection applies throughout the trading day, including premarket, during the Opening Process and during Halts.

### **Section 17. Kill Switch**

(a) Phlx Options Kill Switch is an optional tool that enables Phlx members and member organizations (hereinafter collectively "member") to initiate a message(s) to the Exchange's System to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Members may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the Phlx member when a Kill Switch request has been processed by the Exchange's System.

(1) If quotes are cancelled by the Phlx member utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The Phlx member will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(2) If orders are cancelled by the Phlx member utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The Phlx member will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(3) After quotes and/or orders are removed/cancelled by the Phlx member utilizing the Kill Switch, the Phlx member will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the Phlx member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Phlx member. The applicable Clearing Member also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

### **Section 18 Detection of Loss of Communication**

(a) When the SQF Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and automatically cancel all of the member's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same Lead Market Maker or Market Maker (collectively "Market Maker") ID and underlying issues.

(1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF or FIX Port and the Client Application. The Heartbeat message sent by the member and subsequently received by the Exchange allows the SQF or FIX Port to continually monitor its connection with the member.

(2) SQF Port is the Exchange's System component through which members communicate their quotes from the Client Application.

(3) FIX Port is the Exchange's System component through which members communicate their orders from the Client Application.

(4) Client Application is the System component of the member through which the Exchange member or member organization communicates its quotes and orders to the Exchange.

(b) When the FIX Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and if the member has elected to have its orders cancelled pursuant to paragraph (d) automatically cancel all open orders posted.

(c) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each member and may not be disabled.

(1) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The member may change the default setting Systemically prior to each session of connectivity.

(2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(d) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Phlx member elects to have its orders removed, in addition to the disconnect, the Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the member will be disconnected.

(1) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The member may change the default setting systemically prior to each session of connectivity.

(2) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(e) The trigger for the SQF and FIX Ports is event and Client Application specific. The automatic cancellation of the Market Maker's quotes for SQF Ports and open orders for FIX Ports entered into the respective SQF or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other Market Makers entered into SQF Ports or orders of the same or other members entered into the FIX Ports via a separate and distinct Client Application.

### **Section 19. Mass Cancellation of Trading Interest**

A member or member organization may cancel any bids, offers, and orders in any series of options by requesting Phlx Market Operations staff to effect such cancellation as per the instructions of the member or member organization.

### **Section 20. Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any member or member organization to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) Definitions.

- (1) Customer. For purposes of this Rule, a Customer shall not include any broker-dealer or professional.
- (2) Erroneous Sell/Buy Transaction. For purposes of this Rule, an "erroneous sell transaction" is one in which the price received by the person selling the option is erroneously low, and an "erroneous buy transaction" is one in which the price paid by the person purchasing the option is erroneously high.
- (3) Official. For purposes of this Rule, an Official is an Options Exchange Official as defined in Options 1, Section 1(b)(38).
- (4) Size Adjustment Modifier. For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<u>Number of Contracts per Execution</u>	<u>Adjustment - Theoretical Prices TP Plus/Minus</u>
<u>1-50</u>	<u>N/A</u>
<u>51-250</u>	<u>2 times adjustment amount</u>
<u>251-1000</u>	<u>2.5 times adjustment amount</u>
<u>1001 or more</u>	<u>3 times adjustment amount</u>

(b) Theoretical Price. Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in subparagraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Supplementary Material .05 of this Rule when determining Theoretical Price.

- (1) Transactions at the Open. For a transaction occurring as part of the Opening Process (as defined in Options 3, Section 8) the Exchange will determine the Theoretical Price if there is no NBB or NBO for the affected series just prior to the erroneous transaction or if the bid/ask differential of the NBB and NBO just prior to the erroneous transaction is equal to or greater than the Minimum Amount set forth in the chart contained in sub-



paragraph (b)(3) below. If the bid/ask differential is less than the Minimum Amount, the Theoretical Price is the NBB or NBO just prior to the erroneous transaction.

(2) No Valid Quotes. The Exchange will determine the Theoretical Price if there are no quotes or no valid quotes for comparison purposes. Quotes that are not valid are:

(A) all quotes in the applicable option series published at a time where the last NBB is higher than the last NBO in such series (a "crossed market");

(B) quotes published by the Exchange that were submitted by either party to the transaction in question;

(C) quotes published by another options exchange if either party to the transaction in question submitted the quotes in the series representing such options exchange's best bid or offer, provided that the Exchange will only consider quotes invalid on other options exchanges in up to twenty-five (25) total options series that the party identifies to the Exchange the quotes which were submitted by such party and published by other options exchanges; and

(D) quotes published by another options exchange against which the Exchange has declared self-help.

(3) Wide Quotes. The Exchange will determine the Theoretical Price if the bid/ask differential of the NBB and NBO for the affected series just prior to the erroneous transaction was equal to or greater than the Minimum Amount set forth below and there was a bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction. If there was no bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction then the Theoretical Price of an option series is the last NBB or NBO just prior to the transaction in question, as set forth in paragraph (b) above.

<u>Bid Price at Time of Trade</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.75</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.25</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.50</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$3.00</u>

<u>Above \$50.00 to \$100.00</u>	<u>\$4.50</u>
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<u>Above \$100.00</u>	<u>\$6.00</u>
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(c) Obvious Errors.

(1) Definition. For purposes of this Rule, an Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.25</u>
<u>\$2.00 to \$5.00</u>	<u>\$0.40</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$0.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$0.80</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$1.00</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$1.50</u>
<u>Above \$100.00</u>	<u>\$2.00</u>

(2) Time Deadline. A party that believes that it participated in a transaction that was the result of an Obvious Error must notify an Official in the manner specified from time to time by the Exchange in a notice distributed to members and member organizations. Such notification must be received by an Official within the timeframes specified below:

(A) Customer Orders. For an execution of a Customer order, a filing must be received by the Exchange within thirty (30) minutes of the execution, subject to sub-paragraph (C) below; and

(B) "Non-Customer" Orders. For an execution of any order other than a Customer order, a filing must be received by the Exchange within fifteen (15) minutes of the execution, subject to sub-paragraph (C) below.

(C) Linkage Trades. Any other options exchange will have a total of forty-five (45) minutes for Customer orders and thirty (30) minutes for non-Customer orders, measured from the time of execution on the Exchange, to file with the Exchange for review of transactions routed to the Exchange from that options exchange and executed on the Exchange ("linkage trades"). This includes filings on behalf of another options exchange filed by a third-party routing broker if such third-party broker identifies the affected transactions as linkage trades. In order to facilitate timely reviews of linkage trades the Exchange will accept filings from either the other options exchange or, if applicable, the third-party routing broker that routed the applicable order(s). The additional fifteen (15) minutes provided with respect to linkage trades shall only apply to the extent the options exchange that originally received and routed the order to the Exchange itself received a timely filing from the entering participant (i.e., within 30 minutes if a Customer order or 15 minutes if a non-Customer order).

(3) Acting on Own Motion. The President or designee thereof, who is an officer of the Exchange (collectively "Exchange officer") may review a transaction believed to be erroneous on his/her own motion in the interest of maintaining a fair and orderly market and for the protection of investors. A transaction reviewed pursuant to this paragraph may be nullified or adjusted only if it is determined by the Exchange officer that the transaction is erroneous in accordance with the provisions of this Rule, provided that the time deadlines of sub-paragraph (c)(2) above shall not apply. The Exchange officer shall act as soon as possible after becoming aware of the transaction, and ordinarily would be expected to act on the same day that the transaction occurred. In no event shall the Exchange officer act later than 8:30 a.m. Eastern Time on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with paragraph (l) below; however, a determination by an Exchange officer not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Exchange officer's own motion is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of this Rule, no additional relief may be granted under this provision.

(4) Adjust or Bust. If it is determined that an Obvious Error has occurred, the Exchange shall take one of the actions listed below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) Non-Customer Transactions. Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) above.

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<u>Theoretical Price</u> <u>(TP)</u>	<u>Buy Transaction Adjustment -</u> <u>TP Plus</u>	<u>Sell Transaction Adjustment - TP</u> <u>Minus</u>
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<u>Below \$3.00</u>	<u>\$0.15</u>	<u>\$0.15</u>
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<u>At or above \$3.00</u>	<u>\$0.30</u>	<u>\$0.30</u>
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(B) Customer Transactions. Where at least one party to the Obvious Error is a Customer, the trade will be nullified, subject to subparagraph (C) below.

(C) If any member or member organization submits requests to the Exchange for review of transactions pursuant to this rule, and in aggregate that member or member organization has 200 or more Customer transactions under review concurrently and the orders resulting in such transactions were submitted during the course of 2 minutes or less, where at least one party to the Obvious Error is a non-Customer, the Exchange will apply the non-Customer adjustment criteria set forth in sub-paragraph (A) above to such transactions.

(d) Catastrophic Errors.

(1) Definition. For purposes of this Rule, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.50</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.00</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.00</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$2.50</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$3.00</u>
<u>Above \$100.00</u>	<u>\$4.00</u>

(2) Time Deadline. A party that believes that it participated in a transaction that was the result of a Catastrophic Error must notify an Official in the manner specified from time to time by the Exchange in a notice distributed to members and member organizations. Such notification must be received by an Official by 8:30 a.m. Eastern Time on the first

trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify an Official within 45 minutes after the close of trading that same day.

(3) *Adjust or Bust.* If it is determined that a Catastrophic Error has occurred, the Exchange shall take action as set forth below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone. In the event of a Catastrophic Error, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any Customer order subject to this sub-paragraph will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

<u>Theoretical Price (TP)</u>	<u>Buy Transaction Adjustment - TP Plus</u>	<u>Sell Transaction Adjustment - TP Minus</u>
<u>Below \$2.00</u>	<u>\$0.50</u>	<u>\$0.50</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.00</u>	<u>\$2.00</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$2.50</u>	<u>\$2.50</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$3.00</u>	<u>\$3.00</u>
<u>Above \$100.00</u>	<u>\$4.00</u>	<u>\$4.00</u>

(e) *Significant Market Events.*

(1) *Definition.* For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

(A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst- Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:

(i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times

(ii) the contract multiplier for each traded contract; times

(iii) the number of contracts for each trade; times

(iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in sub-paragraph (e)(3)(A) below.

(B) Transactions involving 500,000 options contracts are potentially erroneous;

(C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;

(D) 10,000 transactions are potentially erroneous.

(2) *Coordination with Other Options Exchanges.* To ensure consistent application across options exchanges, in the event of a suspected Significant Market Event, the Exchange shall initiate a coordinated review of potentially erroneous transactions with all other affected options exchanges to determine the full scope of the event. When this paragraph is invoked, the Exchange will promptly coordinate with the other options exchanges to determine the appropriate review period as well as select one or more specific points in time prior to the transactions in question and use one or more specific points in time to determine Theoretical Price. Other than the selected points in time, if applicable, the Exchange will determine Theoretical Price in accordance with paragraph (b) above.

(3) *Adjust or Bust.* If it is determined that a Significant Market Event has occurred then, using the parameters agreed as set forth in sub-paragraph (e)(2) above, if applicable, an Official will determine whether any or all transactions under review qualify as Obvious Errors. The Exchange shall take one of the actions listed below with respect to all transactions that qualify as Obvious Errors pursuant to sub-paragraph (c)(1) above. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) The execution price of each affected transaction will be adjusted by an Official to the price provided below unless both parties agree to adjust the transaction to a different price or agree to bust the trade. In the context of a Significant Market Event, any error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4) above.

<u>Theoretical Price (TP)</u>	<u>Buy Transaction Adjustment - TP Plus</u>	<u>Sell Transaction Adjustment - TP Minus</u>
<u>Below \$3.00</u>	<u>\$0.15</u>	<u>\$0.15</u>
<u>At or above \$3.00</u>	<u>\$0.30</u>	<u>\$0.30</u>

(B) Where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

(4) Nullification of Transactions. If the Exchange, in consultation with other options exchanges, determines that timely adjustment is not feasible due to the extraordinary nature of the situation, then the Exchange will nullify some or all transactions arising out of the Significant Market Event during the review period selected by the Exchange and other options exchanges consistent with this paragraph. To the extent the Exchange, in consultation with other options exchanges, determines to nullify less than all transactions arising out of the Significant Market Event, those transactions subject to nullification will be selected based upon objective criteria with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

(5) Final Rulings. With respect to rulings made pursuant to this paragraph, the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. Accordingly, rulings by the Exchange pursuant to this paragraph are non-appealable.

(f) Trading Halts. The Exchange shall nullify any transaction that occurs during a trading halt in the affected option on the Exchange pursuant to Supplementary Material .03 of this Rule.

(g) Erroneous Print in Underlying. A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies an Official in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify an Official within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market's notification.

(h) Erroneous Quote in Underlying. A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in subparagraph (c)(4) this Rule.

provided a party notifies an Official in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15- second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify an Official in accordance with sub-paragraph (c)(2) above.

(i) *Stop (and Stop-Limit) Order Trades Triggered by Erroneous Trades.* Transactions resulting from the triggering of a Stop or Stop-Limit Order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies an Official in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify an Official within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the Stop or Stop-Limit Order.

(j) *Linkage Trades.* If the Exchange routes an order pursuant to the Plan (as defined in Options 3, Section 1(n)) that results in a transaction on another options exchange (a "Linkage Trade") and such options exchange subsequently nullifies or adjusts the Linkage Trade pursuant to its rules, the Exchange will perform all actions necessary to complete the nullification or adjustment of the Linkage Trade.

(k) *Verifiable Disruption or Malfunction of Exchange Systems.* Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of Exchange execution, dissemination, or communication systems that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange error, and repeatedly traded). Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication System that prevented a member from updating or canceling a quote/order for which the member is responsible where there is Exchange documentation providing that the member sought to update or cancel the quote/order.

(l) *Appeals.* If a party affected by a determination made under this Rule so requests within the time permitted, the Exchange Review Council will review decisions made under this Rule. A request for review under this paragraph must be made within 30 minutes after a party receives verbal notification of a final determination by an Official under this Rule, except that if such notification is made after 3:30 p.m. Eastern Time, either party has until 9:30 a.m. Eastern Time on the next trading day to request a review. Such a request for review must be in writing or otherwise documented. The Exchange Review Council shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 3:30 p.m. on the day of the transaction or where the request is properly made the next trade day. Any determination by an Official or the Exchange Review Council shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute



to arbitration. The party initiating the appeal shall be assessed a \$500.00 fee if the Exchange Review Council upholds the decision of the Official. In addition, in instances where the Exchange, on behalf of a member or member organization, requests a determination by another market center that a transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant member or member organization.

### **Supplementary Material to Options 3, Section 20**

**.01 Complex Order Executions.** If both parties to a trade that is one component of a complex order execution are parties to all of the trades that together comprise the execution of a complex order at a single net debit or credit, then if one of those component trades can be nullified under this Rule, all component trades that were part of the same complex order shall be nullified as well.

**.02** For the purposes of this Rule, to the extent the provisions of this Rule would result in the Exchange applying an adjustment of an erroneous sell transaction to a price lower than the execution price or an erroneous buy transaction to a price higher than the execution price, the Exchange will not adjust or nullify the transaction, but rather, the execution price will stand.

**.03 Trading Halts.** Trades on the Exchange will be nullified when: (A) The trade occurred during a trading halt in the affected option on the Exchange; (B) with respect to equity options (including options overlying ETFs), the trade occurred during a regulatory halt as declared by the primary market for the underlying security; (C) Respecting index options, the trade occurred during a trading halt on the primary market in (y) underlying securities representing more than 10 percent of the current index value for stock index options, or (z) either component security of an Alpha Index for Alpha Index options; or (D) Respecting Treasury security options, the trade occurred during a trading halt of the underlying Treasury security instituted by the United States Government.

### **.04 Complex Orders and Stock-Option Orders.**

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of this Rule, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

.05 Exchange Determining Theoretical Price. For purposes of this Rule, when the Exchange must determine Theoretical Price pursuant to sub-paragraphs (b)(1)-(3) of this Rule (i.e., at the open, when there are no valid quotes or when there is a wide quote), then the Exchange will determine Theoretical Price as follows.

(a) The Exchange will request Theoretical Price from the third party vendor defined in paragraph (d) below ("TP Provider") to which the Exchange and all other options exchanges have subscribed. The Exchange will apply the Theoretical Price provided by the TP Provider, except as otherwise described below.

(b) To the extent an Official of the Exchange believes that the Theoretical Price provided by the TP Provider is fundamentally incorrect and cannot be used consistent with the maintenance of a fair and orderly market, the Official shall contact the TP Provider to notify the TP Provider of the reason the Official believes such Theoretical Price is inaccurate and to request a review and correction of the calculated Theoretical Price. The Exchange shall also promptly provide electronic notice to other options exchanges that

the TP Provider has been contacted consistent with this paragraph and include a brief explanation of the reason for the request.

(c) An Official of the Exchange may determine the Theoretical Price if the TP Provider has experienced a systems issue that has rendered its services unavailable to accurately calculate Theoretical Price and such issue cannot be corrected in a timely manner.

(d) The current TP Provider to which the Exchange and all other options exchanges have subscribed is: CBOE Livevol, LLC. Neither the Exchange, the TP Provider, nor any affiliate of the TP Provider (the TP Provider and its affiliates are referred to collectively as the "TP Provider"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of the TP Provider pursuant to this Supplementary Material .05. The TP Provider does not guarantee the accuracy or completeness of the calculated Theoretical Price. The TP Provider disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such Theoretical Price. Neither the Exchange nor the TP Provider shall have any liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the use of such Theoretical Price or arising out of any errors or delays in calculating such Theoretical Price.

### **Section 21. Exchange Sharing of Participant-Designated Risk Settings**

The Exchange may share any Phlx participant-designated risk settings in the System with the Clearing Member that clears transactions on behalf of the participant. For purposes of this rule, a participant is any Phlx Lead Market Maker, Streaming Quote Trader or Remote Streaming Quote Trader.

### **Section 22. Limitations on Order Entry**

(a) **Limit Orders.** Members shall not enter Public Customer Limit Orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of Limit Orders to buy and sell the same options contract and the entry of multiple Limit Orders at different prices in the same options series.

(b) **Limitations on Principal Transactions.** Members may not execute as principal against orders on the Limit Order book they represent as agent unless: (i) agency orders are first exposed on the Limit Order book for at least 1 second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or "PIXL" pursuant to Options 3, Section 13; (iv) the orders are entered into the Complex Order Live Auction or "COLA" pursuant to Options 3, Section 14(e); or (v) the orders are entered into the Qualified Contingent Cross or "QCC" mechanism pursuant to Options 3, Section 12 or Options 8, Section 30(e).

(1) This Rule prevents a member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an member to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Rule for a member to be a party to any arrangement designed to circumvent this Rule by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member immediately upon their entry into the System.

(c) **Limitations on Solicitation Orders.** Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-Member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or "PIXL" pursuant to Options 3, Section 13; (iv) the orders are entered into the Complex Order Live Auction or "COLA" pursuant to Options 3, Section 14(e); or (v) the orders are entered into the Qualified Contingent Cross or "QCC" mechanism pursuant to Options 2, Section 12 or Options 8, Section 30(e).

(d) Prior to or after submitting an order to Phlx, a member cannot inform another member or any other third party of any of the terms of the order for purposes of violating Options 3, Section 22.

### **Section 23. Data Feeds and Trade Information**

(a) The following data feeds are offered by Phlx:

(1) **Top of PHLX Options ("TOPO")** is a direct data feed product that includes the Exchange's best bid and offer price, with aggregate size, based on displayable order and quoting interest on Phlx and last sale information for trades executed on Phlx. The data contained in the TOPO data feed is identical to the data simultaneously sent to the processor for the OPRA and subscribers of the data feed. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

(2) **PHLX Orders** is a real-time full Limit Order book data feed that provides pricing information for orders on the PHLX Limit Order book. PHLX Orders is currently provided as part of the TOPO Plus Orders data product. PHLX Orders provides real-time information to enable users to keep track of the single order book(s), single and Complex Orders, and Complex Order Live Auction ("COLA") for all symbols listed on Phlx. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, leg information on complex

strategies and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

**(3) PHLX Depth of Market is a data product that provides:** (i) order and quotation information for individual quotes and orders on the PHLX book; (ii) last sale information for trades executed on Phlx; (iii) auction; and (iv) an Imbalance Message which includes the symbol, side of the market, size of matched contracts, size of the imbalance, and price of the affected series. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

(b) The following order and execution information is available to members:

(1) Clearing Trade Interface ("CTI") is a real-time clearing trade update message that is sent to a member after an execution has occurred and contains trade details specific to that member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity.

(2) TradeInfo PHLX Interface, a user interface, permits a member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) cancellation of open orders at the order, port or firm mnemonic level; (iii) a view of orders and executions; and (iv) download of orders and executions for recordkeeping purposes.

#### **Section 24. Price of Execution Binding**

The price at which an order is executed on the Exchange shall be binding, notwithstanding the fact that an erroneous report in respect thereto may have been rendered.

#### **Section 25. Reserved**

#### **Section 26. Message Traffic Mitigation**

(a) The Exchange shall disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

(1) the Exchange's disseminated bid or offer price increases or decreases;

(2) the size associated with the Exchange's disseminated bid or offer decreases; or

(3) the size associated with the Exchange's bid (offer) increases by an amount greater than or equal to a percentage (never to exceed 20%) of the size associated with previously disseminated bid (offer). Such percentage, which shall never exceed 20%, shall be determined on an issue-by-issue basis by the Exchange and announced to membership via Exchange circular.

**Section 27. Limitation of Exchange Liability and Reimbursement of Certain Expenses**

(a) The Exchange, including for purposes of this Rule its officers, directors and employees, shall not be liable for any damages sustained by a member, member organization, or person associated with any of the foregoing, arising out of or relating to the use or enjoyment by such person or entity of the facilities afforded by the Exchange to members for the conduct of their business.

(b) The cost to the Exchange of producing, pursuant to court order or other legal process, records relating to the business or affairs of a member, member organization, or person associated with any of the foregoing, may, in the discretion of the Exchange, be required to be paid to the Exchange by such person or entity, whether such production is required at the instance of such person or entity, or at the instance of any other party.

(c) In the event any action or proceeding is brought, or claim made, to impose liability on the Exchange for an alleged failure on its part to prevent or to require action by a member, member organization, or person associated with any of the foregoing, such person or entity may, in the discretion of the Exchange, be required to reimburse the Exchange for:

(1) all expenses, including counsel fees, incurred by the Exchange in connection with said action, proceeding, or claim, (2) the recovery, if any, adjudged against the Exchange upon a final determination that the Exchange was liable for the damage sustained, and (3) any payment made by the Exchange with the approval of the member, member organization, or person associated with any of the foregoing in connection with any settlement of any such action, proceeding, or claim; provided, however, that no member, member organization, or person associated with any of the foregoing shall be required to reimburse the Exchange for any fine or any other civil penalty imposed on the Exchange by the SEC or any other governmental entity for a violation by the Exchange of any provision of the Act or of any Commission regulation, or where indemnification would otherwise be prohibited by law.

(2) Each member organization that physically conducts a business on the Exchange's trading floor is required, at its sole cost, to procure and maintain liability insurance that provides defense and indemnity coverage for itself, any person associated with it and the Exchange for any action or proceeding brought, or claim made, to impose liability upon such member organization, associated person or the Exchange resulting from, relating to, or arising out of the conduct of the member organization or associated person (hereinafter, "Insurance"). The Insurance shall further provide defense and indemnity coverage to the Exchange for the Exchange's sole, concurrent, or contributory negligence, or other wrongdoing, relating to or in connection with such claim. The Exchange shall be expressly named by endorsement as an Additional Insured under the Insurance. The Exchange's status and rights to coverage under the Insurance shall be the same rights of the named insured of the Insurance, including, without limitation, rights to the full policy limits. In addition:

(i) The limits for the Insurance shall be not less than \$1,000,000 without erosion by defense costs, but under no circumstance shall the Exchange be entitled to less than the full policy limits of such Insurance.

(ii) The Insurance shall state that it is primary to any insurance maintained by the Exchange.

(iii) Each member organization annually shall cause a certificate of insurance to be issued directly to the Exchange demonstrating that insurance compliant with this Rule has been procured and is maintained. Each member organization also shall furnish a copy of the Insurance to the Exchange for review upon the Exchange's request at any time.

(a) This section (2) is the only section of this Rule specifically limited to member organizations physically located on the Exchange's trading floor.

(d) In the event that a member, member organization, or person associated with any of the foregoing fails to remit any amount due the Exchange under this Rule or General 2, Section 3, such person shall be responsible for all costs of collection incurred by the Exchange, including counsel fees. This subsection does not apply to any objection or appeal by a member, member organization, or person associated with any of the foregoing considered by the Exchange or the Commission, or any appeal from a decision of the Commission.

(e) Paragraphs(a), (b) & (c) shall apply to any action, proceeding, claim, or other legal process brought, made, or asserted on or after the date of the filing of this Rule with the Commission. Paragraph (d) shall apply to any costs incurred by the Exchange upon approval of this Rule.

## **Section 28. Reserved**

### **Options 4 Options Listing Rules**

#### **Section 1. Designation Of Securities**

Stock or Exchange-Traded Fund Share option contracts purchased and sold on the Exchange are designated by reference to the issuer of the underlying security, expiration month, exercised price and type (put or call). Foreign currency option contracts purchased and sold on the Exchange are designated by reference to the underlying foreign currency (e.g., the British pound), expiration month, exercise price and type (put or call).

#### **Section 2. Rights And Obligations Of Holders And Writers**

(a) Subject to the provisions of General 1, Section 1, Options 1, Section 1, Options 9, Sections 15, 17 and 19, the rights and obligations of holders and writers of option contracts of any class of options dealt in on the Exchange shall be as set forth in the rules of The Options Clearing Corporation.

#### **Section 3. Criteria for Underlying Securities**

(a) Underlying securities in respect of which put or call option contracts are approved for listing and trading on the Exchange must meet the following criteria:

(1) The security must be duly registered and be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(2) the security shall be characterized by a substantial number of outstanding shares which are widely held and actively traded.

(b) In addition, the Board of Directors shall from time to time establish guidelines to be considered by the Exchange in evaluating potential underlying securities for Exchange option transactions. There are, however, many relevant factors which must be considered in arriving at such a determination. The fact that a particular security may meet the guidelines established by the Board does not necessarily mean that it will be approved as an underlying security. Further, in exceptional circumstances an underlying security may be approved by the Exchange even though it does not meet all of the guidelines. The Exchange may also give consideration to maintaining diversity among various industries and issuers in selecting underlying securities.

(c) The British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the U.S. dollar, the Mexican peso, the Euro, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona may be approved as underlying foreign currencies for options transactions by the Exchange, subject to any approval criteria the Exchange may deem necessary or appropriate in the interests of maintaining a fair and orderly market or for the protection of investors. In the event that any of the sovereign governments or the European Economic Community's European Monetary System issuing any of the above-mentioned currencies should issue a new currency intended to replace one of the above-mentioned currencies as the standard unit of the official medium of exchange of such government, such new currency also may be approved as an underlying foreign currency for options transactions by the Exchange, subject to any approval criteria the Exchange may deem necessary or appropriate in the interests of maintaining a fair and orderly market or for the protection of investors. Options trading in such new currency may occur simultaneously with options trading in any of the above-mentioned currencies; provided, however, that the Exchange shall withdraw its approval of options transactions in the currency which is intended to be replaced by such new currency as expeditiously as it deems consistent with the maintenance of a fair and orderly market or the protection of investors.

*Supplementary Material to Options 4, Section 3*

.01 The Board of Directors has established guidelines to be considered by the Exchange in evaluating potential underlying securities for Exchange option transactions. Absent exceptional circumstances with respect to items 1, 2, 3, or 4 listed below, at the time the Exchange selects an underlying security for Exchange options transactions, the following guidelines with respect to the issuer shall be met:

- (1) There are a minimum of 7,000,000 shares of the underlying security which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Exchange Act.
- (2) There are a minimum of 2,000 holders of the underlying security.



- (3) Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve months.
- (4)
- (i) If the underlying security is a "covered security" as defined in Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous three (3) consecutive business days preceding the date on which the Exchange submits a certificate to The Options Clearing Corporation for listing and trading. For purposes of this Rule, the market price of such underlying security is measured by the closing price reported in the primary market in which the underlying security is traded.
- (ii) If the underlying security is not a "covered security," the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days.
- (5) The issuer is in compliance with any applicable requirements of the Exchange Act.
- (6) Notwithstanding the requirements set forth in Paragraphs 1 through 4 above, the Exchange may list and trade an options contract if:
- (i) the underlying security meets the guidelines for continued listing in Options 4, Section 4; and
- (ii) options on such underlying security are listed and traded on at least one other national securities exchange.

.02 (a) Members, member organizations or any person proposing to list any option not currently listed on the Exchange shall submit a form of request (a "Request to List an Option"), available from the Exchange's "designated staff" or "designated department" (together "the designated department").

(b) As soon as practicable, but not later than three (3) business days following receipt of the Request to List an Option, the designated department shall review the proposed option's eligibility for listing, using the objective listing criteria set forth in Supplementary Material .01 of this Rule. If the designated department determines that the proposed option does not meet the objective listing criteria set forth in Supplementary Material .01 of this Rule, the designated department shall prepare a responsive form (a "Notification Memorandum") stating the reason(s) why the proposed option is not eligible for listing. The designated department shall forward the Notification Memorandum to the member or member organization that submitted the Request to List an Option within three (3) business days of its determination that the proposed option does not meet objective listing criteria. The designated department shall

maintain all Requests to List an Option and Notification Memoranda in a central file for a period of not less than five (5) years.

(c) If the designated department determines that the proposed option meets the objective listing criteria set forth in Supplementary Material .01 of this Rule, the designated department shall present the initial Request to List an Option and the subsequent review to the Chairman of the Board of Directors or his designee, who shall, within ten (10) business days of receipt of the Request to List an Option, instruct the designated department to: If the designated department determines that the proposed option meets the objective listing criteria set forth in Supplementary Material .01 of this Rule, the designated department shall present the initial Request to List an Option and the subsequent review to the Chairman of the Board of Directors or his designee, who shall, within ten (10) business days of receipt of the Request to List an Option, instruct the designated department to:

(i) solicit options Lead Market Makers to submit applications for Lead Market Maker privileges in the option; or

(ii) within three (3) business days, prepare and forward a letter to the member or member organization that submitted the Request to List an Option, setting forth in reasonable detail the basis on which the decision not to list, or to place limitations or conditions upon, the proposed option was made.

(d) In considering underlying securities, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which the security is traded.

(e) In determining whether to list an option that otherwise meets objective listing criteria, the Chairman of the Board of Directors or his designee may consider such factors as the Exchange's current and projected computer capacity, and the current and projected demands for that capacity, including telecommunications and Option Price Reporting Authority ("OPRA") inbound and outbound message capacity or message volume restrictions placed on the Exchange by OPRA; the projected likely number of series and open interest in the option; the projected likely volatility of the option; the projected likely liquidity of the option; name recognition of the option or underlying security; the projected volume of trading in the option that is likely to occur on the Exchange; the projected share of total trading in the option that is likely to occur at the Exchange; whether any intellectual property right or license thereof exists with respect to the option; whether the proposal is consistent with Exchange Rules and/or the Exchange Act and the rules, regulations, and orders thereunder; whether unusual or unfavorable market conditions exist with respect to the option; and whether it is in the *bona fide* business interest of the Exchange to list the option. If, in denying a request or approving a request subject to conditions or limitations, the Exchange relies upon a factor of other *bona fide* business interests, the Exchange shall, in addition to providing the member with a written response specifying that the Exchange has relied upon other *bona fide* business interests, maintain a record of the *bona fide* business interests supporting its decision.

.03 As used both in Options 4, Sections 3 and 4, the word "security" may be broadly interpreted to mean any equity security as defined in Rule 3a11-1 promulgated under the Exchange Act, which is appropriate for options trading. The word "shares" shall mean the unit of trading of such security. The Exchange deems that American Depository Receipts ("ADRs") and non-convertible preferred stock which meet the criteria set forth in this Rule are appropriate for options trading and in the case of options on an ADR, (i) the Exchange has in place, an effective surveillance agreement with the primary exchange in the home country where the security underlying the ADR is traded or (ii) the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (together, "other related ADRs and securities") over the three month period preceding the date of selection of the ADR for options trading; or (iii) (a) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where the Exchange has in place an effective surveillance agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three month period preceding the date of selection of the ADR for options trading, (b) the average daily trading volume for the security in U.S. markets over the three months preceding the selection of the ADR for options trading is 100,000 or more shares, and (c) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three months preceding the date of selection of the ADR for options trading ("Daily Trading Volume Standard"), or (iv) the SEC has otherwise authorized the listing.

.04 Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and guidelines set forth above and either (i) the Exchange has a market information sharing agreement with the primary exchange for each of the securities held by the fund; or (ii) the International Fund is classified as a diversified fund as that term is defined by Section 5(b) of the Investment Company Act of 1940 and the securities held by the fund are issued by issuers based in five or more countries. A "market information sharing agreement" for purposes of this Supplementary Material is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund including the identity of the member of a foreign exchange executing the trade. International Funds not meeting either (i) or (ii) above shall be deemed appropriate for options trading if the Commission specifically authorizes the listing.

.05 (a) In determining whether an equity security (the "restructure security") issued or anticipated to be issued in a spin-off, reorganization, recapitalization, restructuring, or similar corporate transaction (a "restructuring transaction") satisfies the guidelines set

forth in paragraphs (3) and (4) of Supplementary Material .01 above, the Exchange may rely on the trading volume and market price history of the related equity security in respect of which the restructure security was or is to be issued (the "original security") determined prior to the ex-date for the restructuring transaction, but only if (i) both the trading volume and the market price history of the original security are used for this purpose for any trading days when either is so used, (ii) once the Exchange commences to rely on the trading volume and market price history of the restructure security for any trading day, the Exchange may not rely on the trading volume and market price history of the original security for any trading day thereafter, and (iii) at least one of the following conditions is met:

(1) At least one of (i) the aggregate market value of the restructure security, (ii) the aggregate book value of the assets attributed to the business represented by the restructure security, or (iii) revenues attributed to the business represented by the restructure security is no less than the relevant percentage of the same measure determined with respect to the original security or the business represented by the original security, as applicable, calculated in a comparable manner, provided that in the case of the qualification of a restructure security under clause (ii), the aggregate book value of the assets attributed to the business represented by the restructure security is not less than \$50 million, and in the case of the qualification of a restructure security under clause (iii), the revenues attributed to the business represented by the restructure security are not less than \$50 million. For purposes of the foregoing sentence, the relevant percentage is 25% when the applicable measure determined with respect to the original security or the business it represents reflects the *inclusion* of the business represented by the restructure security, and the relevant percentage is 331/3% when the applicable measure determined with respect to the original security or the business it represents reflects the *exclusion* of the business represented by the restructure security.

(2) The aggregate market value represented by the shares of the restructure security is at least five hundred million dollars (\$500,000,000).

For purposes of the foregoing, (i) aggregate market value of the shares of the restructure security may be determined from "when issued" prices, if available; (ii) comparative aggregate market value calculations shall be based upon share prices that are all either (a) closing prices in the primary market on the last business day preceding the selection date of the restructure security or (b) opening prices in the primary market on the selection date of the restructure security; and (iii) comparative asset values and revenues shall be derived from either the latest annual or most recently available interim (not less than three months) financial statements of the issuer, which may be audited or unaudited or *pro forma*.

(b) Option contracts may not be initially listed for trading on a restructure security until such time as shares of the restructure security are issued and outstanding and are the subject of trading that is not on a "when issued" basis or in some similar fashion that is not contingent on the shares being issued, distributed, redesignated or created.

(c) In certifying a restructure security for options trading, the Exchange may determine that the requirements of paragraphs (1) and (2) of Supplementary Material .01 above are satisfied based on the facts and circumstances that will exist on the intended date for listing the option rather than at the time the restructure security is so selected. In the case of a transaction within the scope of this Supplementary Material .05 in which shares of a restructure security are issued or distributed to the holders of shares of an original security, this determination may either be based on the public ownership and number of shareholders of the original security, or the Exchange may assume that one or both of these requirements will be satisfied if either of the following conditions is met on the date the restructure security is selected for options trading: (i) the restructure security will be listed on an exchange or automatic quotation system subject to initial listing requirements in respect of public ownership of shares of number of shareholders or both that are no less stringent than the requirements assumed to be satisfied, or (ii) at least 40,000,000 shares of the restructure security will be issued and outstanding on the intended date for listing the option, unless in the case of (i) or (ii) above, the Exchange, after reasonable investigation, has determined that such requirements will in fact not be satisfied on that date. Any determination by the Exchange that such requirements will be satisfied based on an assumption made pursuant to this paragraph is subject to the right of any objecting exchange to demonstrate that such requirements will in fact not be satisfied.

(d) In the case of a Restructured Transaction that satisfies either or both of the conditions of subparagraphs (a)(1) or (2) above in which shares of the restructure security are sold in a public offering or pursuant to a rights distribution: (i) the Exchange may assume the satisfaction of one or both of the requirements of paragraph (1) and (2) of Supplementary Material .01 above on the date the restructure security is selected for options trading only if (A) the applicable conditions set forth in paragraph (c)(i) above are met with respect to whichever of these requirements is assumed to be satisfied, or (B) the condition set forth in paragraph (c)(ii) above is met, in either case subject to the limitations stated in said paragraph (c); (ii) the Exchange may certify that the market price of the restructure security satisfies the requirement of paragraph (4) of Supplementary Material .01 above by relying on the market price history of the original security prior to the ex-date for the Restructure Transaction in the manner described in paragraph (a) above, but only if the restructure security has traded "regular way" on an exchange or automatic quotation system for at least five trading days immediately preceding the date of selection, and at the close of trading on each trading day preceding the date of selection, as well as at the opening of trading on the date of selection the market price of the restructure security was at least \$7.50 or, if the restructure security is a "covered security" as defined in paragraph (4) of Supplementary Material .01 above, the market price of the restructure security was at least \$3.00; and (iii) the Exchange may certify that the trading volume of the restructure security satisfies the requirement of paragraph (3) of Supplementary Material .01 above only if the trading volume in the restructure security has been at least 2,400,000 shares during a period of 12 months or less ending on the date the restructure security is selected for options trading.

.06 Securities deemed appropriate for options trading shall include share or other securities ("Exchange-Traded Fund Shares"), including but not limited to Partnership Units as defined in Supplementary Material .08 to Options 4, Section 3, that are principally traded on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, and that (i) represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or a similar entity which holds securities and/or financial instruments including, but not limited to, stock index futures contracts, options on futures, options on securities and indexes, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the "Financial Instruments"), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the "Money Market Instruments") constituting or otherwise based on or representing an investment in an index or portfolio of securities and/or Financial Instruments and Money Market Instruments, or (ii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and /or non-U.S. currency ("Commodity Pool ETFs") or (iii) represent interests in a trust or similar entity that holds a specified non-U.S. currency or currencies deposited with the trust or similar entity when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust ("Currency Trust Shares"), or (iv) represent interests in SPDR Gold Trust, iShares COMEX Gold Trust, iShares Silver Trust, or ETFs Gold Trust ("SGOL") provided:

(a)

(i) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Supplementary Material .01 to this Options 4, Section 3; or (ii) The Exchange-Traded Fund Shares must be available for creation or redemption each business day in cash or in kind from the investment company, commodity pool or other entity at a price related to the net asset value. In addition, the investment company, commodity pool or other entity shall provide that fund shares may be created even though some or all of the securities and/or cash needed to be deposited have not been received by the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the shares and/or cash as soon as possible and such undertaking has been secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the fund which underlies the option as described in the fund or unit trust prospectus; and

(b) The Exchange-Traded Fund Shares meet the following criteria:

(i) The Fund Shares are listed pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes, in which case a comprehensive surveillance agreement is not required; or

(ii) (A) any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;

(B) stocks for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index; and

(C) stocks for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.

(iii) For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.

(iv) For Currency Trust Shares, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non-U.S. currency, which are utilized by the national securities exchange where the underlying Currency Trust Shares are listed and traded.

.07 Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:

(a)

(i) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Supplementary Material.01 to this Options 4, Section 3; or

(ii) the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

(b) not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.

.08 The term "Partnership Units" means a security (a) that is issued by a partnership that invests in any combination of futures contracts, options on futures contracts, forward contracts, commodities (as defined in Section 1(a)(4) of the Commodity Exchange Act) and/or securities; and (b) that is issued and redeemed daily in specified aggregate amounts at net asset value.

#### .09 Index-Linked Securities

(a) Securities deemed appropriate for options trading shall include shares or other securities ("Equity Index-Linked Securities," "Commodity-Linked Securities," "Currency-Linked Securities," "Fixed Income Index-Linked Securities," "Futures-Linked Securities," and "Multifactor Index-Linked Securities," collectively known as "Index-Linked Securities") that are principally traded on a national securities exchange and an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Exchange Act), and represent ownership of a security that provides for the payment at maturity, as described below:

(i) Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an underlying index or indexes of equity securities ("Equity Reference Asset");

(ii) Commodity-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more physical commodities or commodity futures, options on commodities, or other commodity derivatives or Commodity-Based Trust Shares or a basket or index of any of the foregoing ("Commodity Reference Asset");

(iii) Currency-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more currencies, or options on currencies or currency futures or other currency derivatives or Currency Trust Shares (as defined in Supplementary Material .06 to this Options 4, Section 3), or a basket or index of any of the foregoing ("Currency Reference Asset")

(iv) Fixed Income Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing ("Fixed Income Reference Asset");



(v) Futures-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an index or indexes of futures contracts or options or derivatives on futures contracts ("Futures Reference Asset"); and

(vi) Multifactor Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of any combination of two or more Equity Reference Assets, Commodity Reference Assets, Currency Reference Assets, Fixed Income Reference Assets, or Futures Reference Assets ("Multifactor Reference Asset");

(b) For purposes of Supplementary Material .09 to this Options 4, Section 3, Equity Reference Assets, Commodity Reference Asset, Currency Reference Assets, Fixed Income Reference Assets, Futures Reference Assets together with Multifactor Reference Assets, collectively will be referred to as "Reference Assets."

(c) (i) The Index-Linked Securities must meet the criteria and guidelines for underlying securities set forth in Supplementary Material .01 to this Options 4, Section 3; or

(ii) the Index-Linked Securities must be redeemable at the option of the holder at least on a weekly basis through the issuer at a price related to the applicable underlying Reference Asset. In addition, the issuing company is obligated to issue or repurchase the securities in aggregation units for cash, or cash equivalents, satisfactory to the issuer of Index-Linked Securities which underlie the option as described in the Index-Linked Securities prospectus.

(d) The Exchange will implement surveillance procedures for options on Index-Linked Securities, including adequate comprehensive surveillance sharing agreements with markets trading in non-U.S. components, as applicable.

#### **Section 4. Withdrawal of Approval of Underlying Securities or Options**

(a) Whenever the Exchange determines that an underlying security previously approved for Exchange option transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange shall not open for trading any additional series of options of the class covering that underlying security and may therefore prohibit any opening purchase transactions in series of options of that class previously opened (except that (i) opening transactions by Market Makers executed to accommodate closing transactions of other market participants and (ii) opening transactions by member organizations to facilitate the closing transactions of Public Customers executed as crosses pursuant to and in accordance with Options 8, Section 30(b) may be permitted), to the extent it shall deem such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with the Exchange's current approval maintenance requirements, regarding number of publicly held shares of publicly held principal amount, number of shareholders, trading volume or market price the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of option contracts of the class covering that underlying security. When all

option contracts in respect of any underlying security that is no longer approved have expired, the Exchange may make application to the SEC to strike from trading and listing all such option contracts.

Supplementary Material to Options 4, Section 4

.01 The Board of Directors has established guidelines to be considered by the Exchange in determining whether an underlying security previously approved for Exchange option transactions no longer meets its requirements for the continuance of such approval. Absent exceptional circumstances, with respect to items 1, 2, or 3 listed below, an underlying security will not be deemed to meet the Exchange's requirements for continued approval whenever any of the following occur:

1. There are fewer than 6,300,000 shares of the underlying security held by persons other than those who are required to report their security holdings under Section 16(a) of the Exchange Act.
2. There are fewer than 1,600 holders of the underlying security.
3. The trading volume (in all markets in which the underlying security is traded) was less than 1,800,000 shares in the preceding twelve months.
4. The underlying security ceases to be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act.
5. If an underlying security is approved for options listing and trading under the provisions of Supplementary Material .01 of this Rule, the trading volume of the original security (as therein defined) prior to but not after the commencement of trading in the restructure security (as therein defined), including "when issued" trading, may be taken into account in determining whether the trading volume requirement of paragraph (3) of this Supplementary Material .01 is satisfied.

.02 In considering whether any of the events specified in Supplementary Material .01 have occurred with respect to an underlying security, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded.

.03 If prior to the delisting of a class of option contracts covering an underlying security which has been found not to meet the Exchange's requirements for continued approval, the Exchange shall determine that the underlying security again meets the Exchange's requirements for approval of such underlying security, the Exchange may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed under this Rule.

.04 The Exchange may determine to withdraw approval of an underlying foreign currency whenever it deems such withdrawal advisable in the public interest or for the protection of investors. In the event that the Exchange effects such a withdrawal, the Exchange shall not open for trading any additional series of options of the class covering that underlying foreign currency.

.05 If an ADR is initially deemed appropriate for options trading, pursuant to the criteria in Supplementary Material .02(ii) or (iii), the Exchange may not open for trading any additional series of options on that ADR unless (A) the percentage of worldwide trading volume in the ADR and other related ADRs and securities that takes place in the U.S. and in markets with which the Exchange has in place surveillance sharing agreements for any consecutive three month period is either (i) at least 30% without regard to the average daily trading volume in the ADR, or (ii) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 shares, or (B) the Exchange then has in place, a comprehensive surveillance agreement with the primary exchange in the home country where the security underlying the ADR is traded or (C) the SEC has otherwise authorized the listing.

.06 Absent exceptional circumstances, securities initially approved for options trading pursuant to Supplementary Material .04 of this Rule (such securities are defined and referred to in that Supplementary Material as "Exchange-Traded Fund Shares") shall not be deemed to meet the Exchange's requirements for continued approval, and the exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares, whenever the Exchange-Traded Fund Shares are delisted and trading in the Shares is suspended on a national securities exchange, or the Exchange-Traded Fund Shares cease to be an "NMS stock". In addition, the exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

- (1) In accordance with the terms of paragraphs 1, through 7, of Supplementary Material .01 of this Rule in the case of options covering Exchange-Traded Fund Shares when such options were approved pursuant to paragraph (a)(i) of Supplementary Material .04 of this Rule.
- (2) Following the initial twelve-month period beginning upon the commencement of trading of the Exchange-Traded Fund Shares on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, there are fewer than 50 record and/or beneficial holders of Exchange-Traded Fund Shares for 30 or more consecutive trading day;
- (3) The value of the index, non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or Financial Instruments or Money Market Instruments, or portfolio of securities on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or
- (4) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

.07 Absent exceptional circumstances, securities initially approved for options trading pursuant to Supplementary Material .04 to this Rule (such securities are defined and referred to in that Supplementary Material as "Trust Issued Receipts") shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional

series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) In accordance with the terms of Supplementary Material .01 of this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Supplementary Material .04 under this Rule;

(2) The Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;

(3) The Trust has fewer than 50,000 receipts issued and outstanding;

(4) The market value of all receipts issued and outstanding is less than \$1,000,000; or

(5) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

.08 For Holding Company Depository Receipts (HOLDERS), the Exchange will not open additional series of options overlying HOLDERS (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDERS trust is less than 80% (as measured by their relative weightings in the HOLDERS trust); or (2) less than 80% of the total number of securities held in a HOLDERS trust underlie standardized equity options.

.09 Inadequate volume delisting.

(1) Absent exceptional circumstances, a security initially approved for options trading may be deemed by the Exchange not to meet the requirements for continued approval, in which case the Exchange will not open for trading any additional series of equity option contracts of the class of options and may determine to delist the class of options if it meets the following criteria:

(a) The option has been trading on the Exchange not less than six (6) months; and

(b) The Exchange average daily volume ("ADV") of the entire class of options over the last six (6) month period was less than twenty (20) contracts.

If the option is singly listed only on the Exchange, the Exchange will cease to add new series and may delist the class of options when there is no remaining open interest;

(2) Should the Exchange determine to delist an equity option pursuant to this Supplementary Material .09, it will notify the Lead Market Maker to whom the affected option is allocated of the determination to delist such option not less than ten (10) days prior to the scheduled delisting date (the "options delisting letter").

(a) Within two (2) days of receiving an options delisting letter the affected Lead Market Maker may in writing submit to the person designated by the Exchange in the options delisting letter the Lead Market Maker's justification for and/or explanation of the low ADV in such option and reasons why the Exchange should continue to list the option (the "justification letter");

(b) The Exchange may, but is not required to, take into account the information provided in the justification letter in its determination to delist the option, and will indicate its determination to delist in writing to the affected Lead Market Maker that provided the justification letter to the Exchange. The Exchange's decision to delist the option is exclusively its own and is not appealable.

#### .10 Index Linked Securities

Absent exceptional circumstances, Index-Linked Securities ("Securities") initially approved for options trading pursuant to Supplementary Material .07 to this Rule shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series or option contracts of the class covering such Securities whenever the underlying Securities are delisted and trading in the Securities is suspended on a national securities exchange, or the Securities are no longer an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Exchange Act). In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Index-Linked Securities in any of the following circumstances:

(a) The underlying Index-Linked Security fails to comply with the terms of Supplementary Material .07 to this Rule;

(b) In accordance with the terms of Supplementary Material .01 to this Rule, in the case of options covering Index-Linked Securities when such options were approved pursuant to Supplementary Material .07 to this Rule, except that, in the case of options covering Index-Linked Securities approved pursuant to Supplementary Material .07(c)(ii) to this Rule that are redeemable at the option of the holder at least on a weekly basis, then option contracts of the class covering such Securities may only continue to be open for trading as long as the Securities are listed on a national securities exchange and are "NMS" stock as defined in Rule 600 of Regulation NMS;

(c) In the case of any Index-Linked Security trading pursuant to Supplementary Material.07 to this Rule, the value of the Reference Asset is no longer calculated; or

(d) Such other event shall occur or condition exist that in the opinion of the Exchange make further dealing in such options on the Exchange inadvisable.

.11 If an option series is listed but restricted to closing transactions on another national securities exchange, the Exchange may list such series (even if such series would not otherwise be eligible for listing under the Exchange's Rules), which shall also be restricted to closing transactions on the Exchange.

### **Section 5. Series of Options Open for Trading**

(a) After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock or Exchange-Traded Fund Share or to a specific underlying foreign currency) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series as follows:

#### **(i) Stock or Exchange-Traded Fund Share Options.**

(A) At the commencement of trading on the Exchange of a particular class of stock or Exchange-Traded Fund Share options, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading on the Exchange.

(B) Additional series of stock or Exchange-Traded Fund Share options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on an individual stock until the close of trading on the business day prior to the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the second business day prior to expiration.

(C) The exercise price of each series of stock or Exchange-Traded Fund Share options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange.

(D) Long Term Options. The Exchange may list, with respect to any class of stock or Exchange-Traded Fund Share options series, options having from twelve up to thirty-nine months from the time they are listed until expiration. There may be up to ten expiration months for options on the SPDR® S&P 500® exchange-traded fund (the

"SPY ETF") and up to six expiration months for options on all other stocks or Exchange Traded Fund Shares. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

(ii) Reserved.

(iii) U.S. Dollar-Settled Foreign Currency Options. Within each class of approved U.S. dollar-settled foreign currency options, the Exchange may open for trading series of options expiring in consecutive calendar months ("consecutive month series"), as provided in subparagraph (A) of this paragraph (iii), and series of options expiring at three-month intervals ("cycle month series"), as provided in subparagraph (B) of this paragraph. Prior to the opening of trading in any series of U.S. dollar-settled FCO, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(A) Consecutive Month Series

With respect to each class of U.S. dollar-settled FCO, series of options having up to four consecutive expiration months may be opened for trading simultaneously, with the shortest-term series initially having no more than two months to expiration. Additional consecutive month series of the same class may be opened for trading on the Exchange at or about the time a prior consecutive month series expires, and the expiration month of each such new series shall normally be the month immediately succeeding the expiration month of the then outstanding consecutive month series of the same class of options having the longest remaining time to expiration.

(B) Cycle Month Series

The Exchange may designate one expiration cycle for each class of U.S. dollar-settled FCO. An expiration cycle shall consist of four calendar months ("cycle months") occurring at three-month intervals.

With respect to any particular class of U.S. dollar-settled FCO, series of options expiring in the four cycle months designated by the Exchange for that class may be opened for trading simultaneously, with the shortest-term series initially having approximately three months to expiration. Additional cycle month series of the same class may be opened for trading on the Exchange at or about the time a prior cycle month series expires, and the expiration month of each such new series shall normally be approximately three months after the expiration month of the then outstanding cycle month series of the same class of options having the longest remaining time to expiration.

(C) Long-Term Series.

The Exchange may list, with respect to any U.S. dollar-settled foreign currencies, options having up to three years from the time they are listed until expiration. There may be up to ten options series, options having up to thirty-six months from the time they are listed until expiration. There may be up to six additional expiration months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than nine months.

(D) For each expiration month opened for trading of U.S. dollar-settled foreign currency options, in addition to the strike prices listed by the Exchange pursuant to subsection (a)(iii)(U.S. Dollar-Settled Foreign Currency Options) of this Options 4, Section 5, the Exchange shall also list a single strike price of \$0.01.

(E) Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying foreign currency moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened.

(iv) New series of equity options, options on Exchange Traded Fund Shares, and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Supplementary Material .10 to this Rule.

(b) **Rotation.** On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day prior to the expiration date of a particular series of options, a closing rotation (as defined in Supplementary Material .01 to Options 3, Section 9) for such series shall commence at 4:00 p.m. in the case of options on stocks or 4:15 p.m. in the case of options on designated Exchange-Traded Fund Shares.

(c) **Adjustments.** The unit of trading and the exercise price initially established for option contracts of a particular series are subject to adjustment in accordance with the rules of The Options Clearing Corporation. When such adjustment or adjustments have been determined, announcement thereof shall be made by the Exchange and, effective as of the time specified in such announcement, the adjusted unit of trading and the adjusted exercise price shall be applicable with respect to all subsequent transactions in such series of options.

(d) Option contracts shall be subject to adjustments in accordance with the rules of The Options Clearing Corporation.

*Supplementary Material to Options 4, Section 5*

.01 When put option contracts or put and call option contracts are first opened for trading on an underlying security or underlying foreign currency, the Exchange may open a series of put option contracts corresponding to each series of call option contracts open or to be opened for trading on the same underlying security or on the same underlying foreign currency.



.02 FCO Series. In fixing the exercise price of one or more series of options on any underlying foreign currency, the Exchange may take into account the forward sales prices quoted for that underlying foreign currency in the interbank foreign exchange market.

.03 Reserved.

.04 Reserved.

.05 (a) The interval of strike prices of series of options on individual stocks may be:

(i) \$1 Strike Price Interval Program.

(A) \$1 or greater strike price intervals where the strike price is \$50 or less, but not less than \$1. Except as provided in subparagraph (C) below, the listing of \$1 strike price intervals shall be limited to options classes overlying no more than 150 individual stocks (the "\$1 Strike Program") as specifically designated by the Exchange. The Exchange may list \$1 strike price intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$1 Strike Program under their respective rules. If a class participates in the \$1 Strike Program, \$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS.

(B) Initial and Additional Series. To be eligible for inclusion into the \$1 Strike Program, an underlying stock must close below \$50 in its primary market on the previous trading day.

After a stock is added to the \$1 Strike Program, the Exchange may list \$1 strike price intervals from \$1 to \$50 according to the following parameters:

(1) If the price of the underlying stock is equal to or less than \$20, the Exchange may list series with an exercise price up to 100% above and 100% below the price of the underlying stock. However, the foregoing restriction shall not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class. For example, if the price of the underlying stock is \$2, the Exchange would be permitted to list the following series: \$1, \$2, \$3, \$4, \$5, \$6 and \$7.

(2) If the price of the underlying stock is greater than \$20, the Exchange may list series with an exercise price up to 50% above and 50% below the price of the underlying security up to \$50.

(3) For the purpose of adding strikes under the \$1 Strike Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Supplementary Material. 01(a) to Options 4, Section 5.

(4) No additional series in \$1 strike price intervals may be listed if the underlying stock closes at or above \$50 in its primary market. Additional series in \$1 strike price intervals may not be added until the underlying stock closes again below \$50.

(5) LEAPS. For stocks in the \$1 Strike Program, the Exchange may list one \$1 strike price interval between each standard \$5 strike interval, with the \$1 strike price interval being \$2 above the standard strike for each interval above the price of the underlying stock, and \$2 below the standard strike for each interval below the price of the underlying stock ("\$2 wings"). For example, if the price of the underlying stock is \$24.50, the Exchange may list the following standard strikes in \$5 intervals: \$15, \$20, \$25, \$30 and \$35. Between these standard \$5 strikes, the Exchange may list the following \$2 wings: \$18, \$27 and \$32.

In addition, the Exchange may list the \$1 strike price interval which is \$2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price (\$24.50) is \$20, the Exchange may list a \$22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP.

Additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

A stock shall remain in the \$1 Strike Program until otherwise designated by the Exchange.

(C) The Exchange may list \$1 strike prices up to \$5 in LEAPS(R) in up to 200 option classes on individual stocks. The Exchange may not list \$1 strike price intervals within \$0.50 on an existing \$2.50 strike in the same expiration, except that strike prices of \$2 and \$3 shall be permitted within \$0.50 of a \$2.50 strike price for classes also selected to participate in the \$0.50 Strike Program.

(D) Delisting Policy. For options classes selected to participate in the \$1 Strike Program, the Exchange will, on a monthly basis, review series that were originally listed under the \$1 Strike Program with strike prices that are more than \$5 from the current value of an options class and delist those series with no open interest in both the put and the call series having a: (1) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (2) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month. If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify other options exchanges with similar delisting policies regarding the eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, the Exchange may grant member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the \$1 Strike Program that are eligible for delisting.

(ii) \$0.50 or greater beginning at \$.50 where the strike price is \$5.50 or less, but only for options classes whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts

per day as determined by The Options Clearing Corporation during the preceding three calendar months. The listing of \$0.50 strike prices shall be limited to options classes overlying no more than 20 individual stocks (the "\$0.50 Strike Program") as specifically designated by the Exchange. The Exchange may list \$0.50 strike prices on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$0.50 Strike Program under their respective rules. A stock shall remain in the \$0.50 Strike Program until otherwise designated by the Exchange.

(iii) (A) \$2.50 or greater where the strike price is \$25 or less: provided, however, that the Exchange may not list \$2.50 intervals below \$50 (e.g., \$12.50, \$17.50) for any class included within the \$1 Strike Program;

(B) \$5 or greater where the strike price is greater than \$25 but less than \$200; and

(C) \$10 or greater where the strike price is \$200 or more, except as provided in paragraphs (b) and (c) below.

(iv) (A) The interval of strike prices of series of options on Exchange-Traded Fund Shares will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(B) The interval of strike prices of series of options on SLV and USO Exchange-Traded Fund Shares will be \$.50 or greater where the strike price is less than \$75.

(C) Notwithstanding any other provision regarding the interval of strike prices of series of options on Exchange-Traded Fund Shares in this rule, the interval of strike prices on SPDR® S&P 500® ETF ("SPY"), iShares Core S&P 500 ETF ("IVV"), PowerShares QQQ Trust ("QQQ"), iShares Russell 2000 Index Fund ("IWM"), and the SPDR® Dow Jones® Industrial Average ETF ("DIA") options will be \$1 or greater.

(v) The interval of strike prices of series of options on Index Linked Securities will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(vi) The interval between strike prices of series of options of series of options on Trust issued Receipts, including Holding Company Depository Receipts (HOLDERS), will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(vii) Notwithstanding any other provision regarding strike prices in this rule, non- Short Term Options that are on a class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Supplementary Material .11 to this Options 4, Section 5 and in the same strike price intervals that are permitted in Supplementary Material .11 to this Options 4, Section 5.

(b) The Exchange may select up to 60 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50 (the "\$2.50 Strike Price Program"). In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option, as part of this program.

(i) In addition, on any option class that has been selected as part of the \$2.50 Strike Price Program pursuant to paragraph (b) above, the Exchange may list \$2.50 strike prices between \$50 and \$100, provided the \$2.50 strike prices between \$50 and \$100 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an option class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$ 57.50 strike price and the \$62.50 strike price on the next business day.

(ii) An option class shall remain in the \$2.50 Strike Price Program until otherwise designated by the Exchange and a decertification notice is sent to The Options Clearing Corporation.

(c) The Exchange may list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks or on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$5 Strike Price Program under their respective rules.

.06 The Exchange may initially list exercise strike prices for each expiration of U.S. dollar-settled options on currencies within a 40 percent band around the current Exchange Spot Price at fifty cent (\$.50) intervals. Thus, if the Exchange Spot Price of the Euro were at \$100.00, the Exchange would list strikes in \$.50 intervals up to \$120.00 and down to \$80.00, for a total of eighty-one strike prices available for trading. As the Exchange Spot Price for U.S. dollar-settled FCOs moves, the Exchange may list new strike prices that, at the time of listing, do not exceed the Exchange Spot Price by more than 20 percent and are not less than the Exchange Spot Price by more than 20 percent. For example, if at the time of initial listing, the Exchange Spot Price of the Euro is at \$100.00, the strike prices the Exchange will list will be \$80.00 to \$120.00. If the Exchange Spot Price then moves to \$105.00, the Exchange may list additional strikes at the following prices: \$105.50 to \$126.00.

.07 The exercise price of each series of foreign currency options opened for trading on the Exchange normally shall be fixed at a price per unit which is reasonably close to the current Exchange Spot Price per unit of the underlying foreign currency in the foreign exchange market at or before the time such series of options is first opened for trading on the Exchange, as determined by finding the arithmetic mean of Exchange Spot Prices as defined in Options 1, Section 1(b)(17) at or about such time.

.08 Quarterly Options Series Program. The Exchange may list and trade P.M. settled options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5)

currently listed options classes that are either Index Options or options on Exchange Traded Funds ("ETFs"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules.

(a) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year.

(b) Reserved.

(c) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(d) Additional Series. Additional Quarterly Options Series of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing price of the underlying ETF (or "Exchange-Traded Fund Shares") as defined in Options 1, Section 1(b)(18) on the preceding day. The Exchange may also open additional strike prices of Quarterly Options Series in ETF options that are more than 30% above or below the current price of the underlying ETF provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

(f) Reserved.

(g) Delisting Policy. (i) With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having: (a) a strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; or (b) a strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(ii) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(iii) In connection with the above-referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

(h) Reserved.

.09 Notwithstanding Supplementary Material .05 to this Option 4, Section 5, the intervals between strike prices for options on the Reduced Value Russell 2000® Index and the Reduced Value Nasdaq 100® Options shall be determined in accordance with Supplementary Material .02 and Supplementary Material .03 to Options 4A, Section 12.

.10 Range Limitations for New Options Series. Range Limitations applicable to equity options, options on Exchange Traded Funds, and options on Trust Issued Receipts opened for trading are adopted by the Exchange to codify a quote mitigation strategy in the Options Listing Procedures Plan ("OLPP").

(a) Except as provided in subparagraphs (b) through (d) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. However, the foregoing restriction shall not prohibit the listing of at least three exercise prices per expiration month in an option class. Except as provided in Supplementary Material .11(d) to Options 4, Section 5, if the price of the underlying security is greater than \$20, the Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

The price of the underlying security is measured by:

(i) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges;

(ii) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines to list a new series; and

(iii) for option series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 8:45 a.m. and 9:30 a.m. Eastern Time

(b) The series exercise price range limitations contained in subparagraph (a) above do not apply with regard to:

(i) the listing of \$1 strike prices in option classes participating in the \$1 Strike Program or

(ii) the listing of series of FLEX options.

(c) The Exchange may designate up to five option classes to which the series exercise price range may be up to 100% above and below the price of the underlying security (which underlying security price shall be determined in accordance with subparagraph (i) above). Such designations shall be made on an annual basis and shall not be removed during the calendar year unless the option class is delisted by the Exchange, in which case the Exchange may designate another option class to replace the delisted class. If a designated option class is delisted by the Exchange but continues to trade on at least one options exchange, the option class shall be subject to the limitations on listing new series set forth in this Supplementary Material .10 unless designated by another exchange.

(d) If the Exchange has designated five option classes pursuant to subparagraph (c) above, and requests that one or more additional option classes be excepted from the limitations on listing new series set forth in subparagraph (a) above, the additional option class(es) may so be designated upon the unanimous consent of all exchanges that trade such option class(es). Additionally, the Exchange may increase the percentage range for the listing of new series to more than 100% above and below the price of the underlying security for an option class, upon the unanimous consent of all exchanges that trade such option class(es).

Exceptions for an additional class or for an increase of the exercise price range shall apply to all standard expiration months existing at the time of the unanimous consent, plus the next standard expiration month to be added, and also to any nonstandard expirations that occur prior to the next standard monthly expiration.

(e) The Exchange can list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the OLPP or the rules of the exchange that initially listed the series.

**.11 Short Term Option Series Program.** After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. With respect to Wednesday SPY Expirations, the Exchange may open for trading on any Tuesday or Wednesday that is a business day series of options on the SPDR S&P 500 ETF Trust (SPY) to expire on any Wednesday of the month that is a business day and is not a Wednesday in which Quarterly Options Series expire ("Wednesday SPY Expirations"). With respect to Monday SPY Expirations, the Exchange may open for trading on any Friday or Monday that is a business day series of options on the SPY to expire on any Monday of the month that is a business day and is

not a Monday in which Quarterly Options Series expire ("Monday SPY Expirations"), provided that Monday SPY Expirations that are listed on a Friday must be listed at least one business week and one business day prior to the expiration. The Exchange may list up to five consecutive Wednesday SPY Expirations and five consecutive Monday SPY Expirations at one time; the Exchange may have no more than a total of five Wednesday SPY Expirations and a total of five Monday SPY Expirations. Monday and Wednesday SPY Expirations will be subject to the provisions of this Rule. Regarding Short Term Option Series:

(a) The Exchange may select up to fifty (50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the fifty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to thirty (30) Short Term Option Series for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(b) With the exception of Monday and Wednesday SPY Expirations, no Short Term Option Series may expire in the same week in which monthly option series on the same class expire. In the case of Quarterly Options Series, no Short Term Option Series may expire on the same day as an expiration of Quarterly Option Series on the same class.

(c) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security). Any strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

(d) If the Exchange opens less than thirty (30) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the



underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

The Exchange may also open additional strike prices of Short Term Option Series that are more than 50% above or below the current price of the underlying security (if the price is greater than \$20); provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision.

In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Short Term Option Series may be (i) \$0.50 or greater where the strike price is less than \$100, and \$1 or greater where the strike price is between \$100 and \$150 for all classes that participate in the Short Term Options Series Program; (ii) \$0.50 for classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150. Related non-Short Term Option series shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Supplementary Material .11 to this Options 4, Section 5 and in the same strike price intervals that are permitted in Supplementary Material .11 to this Options 4, Section 5.

.12 \$0.50 and \$1 Intervals for Options Used to Calculate Volatility Indexes. Notwithstanding the provisions of this Options 4, Section 5, the Exchange may open for trading series at \$0.50 or greater strike price intervals where the strike price is less than \$75 and \$1.00 or greater strike price intervals where the strike price is between \$75 and \$150 for options that are used to calculate a volatility index.

### **.13 Mini Options Contracts**

(a) After an option class on a stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security with a 100 share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security may be listed for all expirations opened for trading on the Exchange. Mini Option contracts may currently be listed on SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Alphabet Inc. ("GOOGL") and Amazon.com Inc. ("AMZN").

- (b) Strike prices for Mini Options shall be set at the same level as for regular options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1250, and the strike price will be set at 125.
- (c) No additional series of Mini Options may be added if the underlying security is trading at \$90 or less. The underlying security must trade above \$90 for five consecutive days prior to listing Mini Options contracts in an additional expiration month.
- (d) The minimum price variation for bids and offers for Mini Options shall be the same as permitted for standard options on the same security. For example, if a security participates in the Penny Pilot Program, Mini Options on the same underlying security may be quoted in the same minimum increments, e.g., \$0.01 for all quotations in series that are quoted at less than \$3 per contract and \$0.05 for all quotations in series that are quoted at \$3 per contract or greater, \$0.01 for all SPY option series, and Mini Options do not separately need to qualify for the Penny Pilot Program.

#### **Section 6. Reserved**

#### **Section 7. Reserved**

#### **Section 8. Reserved**

#### **Section 9. Reserved**

#### **Section 10. Backup Trading Arrangements**

##### **(a) Phlx is Disabled Exchange.**

##### **(i) Exchange ("Phlx") Exclusively Listed Options.**

(A) For purposes of this Rule, the term "exclusively listed option" means an option that is listed exclusively by an exchange (because such exchange has an exclusive license to use, or has proprietary rights in, the interest underlying the option).

(B) The Phlx may enter into arrangements with one or more other exchanges (each a "Backup Exchange") to permit the Phlx and its members and associated persons and other personnel to use a portion of the Backup Exchange's facilities to conduct the trading of some or all of the Phlx's exclusively listed options in the event that the functions of the Phlx are, or are threatened to be, severely and adversely affected by an emergency or extraordinary circumstances (a "Disabling Event"). Such options shall trade as listings of Phlx. The facility of the Backup Exchange used by the Phlx for this purpose will be deemed to be a facility of the Phlx.

(C) Trading of Phlx exclusively listed options shall be conducted in accordance with the rules of the Backup Exchange, except that such trading shall be subject to Phlx Rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements, and position limits. In addition, the Phlx and the

Backup Exchange may agree that other Rules of the Phlx will apply to such trading. The Phlx and the Backup Exchange have agreed to communicate to their respective members which rules apply in advance of trading. The Backup Exchange rules that govern trading on Phlx's facility at the Backup Exchange shall be deemed to be Phlx Rules for purposes of such trading.

(D) The Backup Exchange has agreed to perform the related regulatory functions with respect to trading of Phlx exclusively listed options on Phlx's facility at the Backup Exchange, in each case except as Phlx and the Backup Exchange may specifically agree otherwise. The Backup Exchange and Phlx have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of Phlx exclusively listed options on Phlx's facility at the Backup Exchange. Phlx shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to Phlx's facility at the Backup Exchange.

(E) If the Backup Exchange is unable to accommodate all Phlx members that desire to trade on Phlx's facility at the Backup Exchange pursuant to paragraph (a)(i)(A), the Phlx may determine which members shall be eligible to trade at that facility. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the member is a Lead Market Maker in the applicable product(s), the number of contracts traded by the member or member organization in the applicable product(s), market performance, and other factors relating to a member's contribution to the market in the applicable product(s) during a specific period.

(F) Members of the Backup Exchange shall not be authorized to trade in any Phlx exclusively listed options, except that (i) Phlx may deputize willing floor brokers of the Backup Exchange as temporary Phlx members to permit them to execute orders as brokers in Phlx exclusively options traded on Phlx's facility at the Backup Exchange; and (ii) the Backup Exchange has agreed that it will, at the instruction of Phlx, select members of the Backup Exchange that are willing to be deputized by Phlx as temporary Phlx members authorized to trade Phlx exclusively listed options on Phlx's facility at the Backup Exchange for such period of time following a Disabling Event as Phlx determines to be appropriate, and Phlx may deputize such members of the Backup Exchange as temporary Phlx members for that purpose.

(ii) Phlx Singly Listed Options.

(A) For purposes of this Rule, the term "singly listed option" means an option that is not an "exclusively listed option" but that is listed by an exchange and not by any other national securities exchange.

(B) The Exchange may enter into arrangements with a Backup Exchange under which the Backup Exchange will agree, in the event of a Disabling Event, to list for trading singly listed options that are then singly listed only by the Phlx and not by the Backup Exchange. Any such options listed by the Backup Exchange shall trade on the Backup

Exchange and in accordance with the rules of the Backup Exchange. Such options shall be traded by members of the Backup Exchange and by Phlx members selected by the Phlx to the extent the Backup Exchange can accommodate Phlx members in the capacity of temporary members of the Backup Exchange. If the Backup Exchange is unable to accommodate all Phlx members that desire to trade at the Backup Exchange pursuant to paragraph (a)(i)(A), Phlx may determine which members shall be eligible to trade at the Backup Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the member is a Lead Market Maker in the applicable product(s), the number of contracts traded by the member or Lead Market Maker unit in the applicable product(s), market performance, and other factors relating to a member's contribution to the market in the applicable product(s).

Any Phlx member who is granted temporary access to the Backup Exchange pursuant to this paragraph shall only be permitted (i) to act in those Backup Exchange capacities that are authorized by the Backup Exchange and that are comparable to capacities in which the temporary member has been authorized to act on the Phlx and (ii) to trade in those options in which the temporary member is authorized to trade on the Phlx.

(C) Any options listed by the Backup Exchange pursuant to paragraph (a)(ii)(B) that does not satisfy the standard listing and maintenance criteria of the Backup Exchange will be subject, upon listing by the Backup Exchange, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in the rules of the Backup Exchange).

(b) Phlx is Backup Exchange.

(i) Disabled Exchange Exclusively Listed Options.

(A) The Exchange may enter into arrangements with one or more other exchanges (each a "Disabled Exchange") to permit the Disabled Exchange and its members to use a portion of the Phlx's facilities to conduct the trading of some or all of the Disabled Exchange's Exclusively Listed Securities in the event of a Disabling Event. The facility of the Phlx used by the Disabled Exchange for this purpose will be deemed to be a facility of the Disabled Exchange.

(B) Trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx shall be conducted in accordance with Phlx Rules, except that (1) such trading shall be subject to the Disabled Exchange's rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements, and position limits, and (2) members of the Disabled Exchange that are trading on the Disabled Exchange's facility at Phlx (not including Phlx members who become temporary members of the Disabled Exchange pursuant to paragraph (b)(i)(D)) will be subject to the rules of the Disabled Exchange governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled

Exchange. In addition, the Disabled Exchange and Phlx may agree that other Disabled Exchange rules will apply to such trading. The Disabled Exchange and Phlx have agreed to communicate to their respective members which rules apply in advance of trading.

(C) Phlx will perform the related regulatory functions with respect to trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx, in each case except as the Disabled Exchange and Phlx may specifically agree otherwise. Phlx and the Disabled Exchange have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Phlx. The Disabled Exchange has agreed that it shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to the Disabled Exchange's facility at Phlx.

(D) Phlx members shall not be authorized to trade in any exclusively listed options of the Disabled Exchange, except that: (1) the Disabled Exchange may deputize willing Phlx floor brokers as temporary members of the Disabled Exchange to permit them to execute orders as brokers in exclusively listed options of the Disabled Exchange traded on the facility of the Disabled Exchange at Phlx; and (2) at the instruction of the Disabled Exchange, the Phlx shall select Phlx members that are willing to be deputized by the Disabled Exchange as temporary members of the Disabled Exchange authorized to trade the Disabled Exchange's exclusively listed options on the facility of the Disabled Exchange at the Phlx for such period of time following a Disabling Event as the Disabled Exchange determines to be appropriate, and the Disabled Exchange may deputize such Phlx members as temporary members of the Disabled Exchange for that purpose.

(ii) Disabled Exchange Singly Listed Options.

(A) The Phlx may enter into arrangements with a Disabled Exchange under which the Phlx will agree, in the event of a Disabling Event, to list for trading options that are then singly listed only by the Disabled Exchange and not by the Phlx. Any such options listed by the Phlx shall trade on the Phlx and in accordance with Phlx Rules. Such options shall be traded by Phlx members and by members of the Disabled Exchange selected by the Disabled Exchange to the extent the Phlx can accommodate members of the Disabled Exchange in the capacity of temporary members of Phlx. Any member of a Disabled Exchange granted temporary access to conduct business on the Phlx under this paragraph shall only be permitted (i) to act in those Phlx capacities that are authorized by the Phlx and that are comparable to capacities in which the temporary member has been authorized to act on the Disabled Exchange and (ii) to trade in those options in which the temporary member is authorized to trade on the Disabled Exchange. The Phlx may allocate such options to a Phlx Lead Market Maker in advance of a Disabling Event, without utilizing the allocation process under Options 2, Section 3, to enable the Phlx to quickly list such options upon the occurrence of a Disabling Event.

(B) Any class of options listed by the Phlx pursuant to paragraph (b)(ii)(A) that does not satisfy the listing and maintenance criteria under Options 4, Sections 3 and 4 will be subject, upon listing by the Phlx, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in Phlx Rules).

(c) Member Obligations.

(i) Temporary Members of a Disabled Exchange

(A) A Phlx member acting as a temporary member of the Disabled Exchange pursuant to paragraph (b)(i)(D) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of the Disabled Exchange at Phlx to the extent applicable during the period of such trading. Additionally, (1) such Phlx member shall be deemed to have satisfied, and the Disabled Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange, including all dues, fees and charges imposed generally upon members of the Disabled Exchange based on their status as such; (2) such Phlx member shall have none of the rights of a member of the Disabled Exchange except the right to conduct business on the facility of the Disabled Exchange at Phlx to the extent described in this Rule; (3) the member organization associated with such Phlx member, if any, shall be responsible for all obligations arising out of that Phlx member's activities on or relating to the Disabled Exchange; and (4) the clearing member of such Phlx member shall guarantee and clear the transactions of such Phlx member on the Disabled Exchange.

(B) A member of a Backup Exchange acting in the capacity of a temporary member of Phlx pursuant to paragraph (a)(i)(F) shall be subject to, and obligated to comply with, the Rules that govern the operation of the facility of Phlx at the Backup Exchange, including Phlx Rules to the extent applicable during the period of such trading. Additionally, (1) such temporary member shall be deemed to have satisfied, and Phlx will waive specific compliance with, Rules governing or applying to the maintenance of a person's or a firm's status as a member of Phlx, including all dues, fees and charges imposed generally upon Phlx members based on their status as such; (2) such temporary member shall have none of the rights of a Phlx member except the right to conduct business on the facility of Phlx at the Backup Exchange to the extent described in this Rule; (3) the member organization associated with such temporary member, if any, shall be responsible for all obligations arising out of that temporary member's activities on or relating to Phlx; and (4) the clearing member of such temporary member shall guarantee and clear the transactions on Phlx of such temporary member.

(ii) Temporary Members of the Backup Exchange

(A) A Phlx member acting in the capacity of a temporary member of the Backup Exchange pursuant to paragraph (a)(ii)(B) shall be subject to, and obligated to comply

with, the rules of the Backup Exchange that are applicable to the Backup Exchange's own members. Additionally, (1) such Phlx member shall be deemed to have satisfied, and the Backup Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Backup Exchange, including all dues, fees and charges imposed generally upon members of the Backup Exchange based on their status as such, (2) such Phlx member shall have none of the rights of a member of the Backup Exchange except the right to conduct business on the Backup Exchange to the extent described in this Rule; (3) the member organization associated with such Phlx member, if any, shall be responsible for all obligations arising out of that Phlx member's activities on or relating to the Backup Exchange; (4) the clearing member of such Phlx member shall guarantee and clear the transactions of such Phlx member on the Backup Exchange; and (5) such Phlx member shall only be permitted (x) to act in those capacities on the Backup Exchange that are authorized by the Backup Exchange and that are comparable to capacities in which the Phlx member has been authorized to act on Phlx, and (y) to trade in those options in which the Phlx member is authorized to trade on Phlx.

(B) A member of a Disabled Exchange acting in the capacity of a temporary member of Phlx pursuant to paragraph (b)(ii)(A) shall be subject to, and obligated to comply with, Phlx Rules that are applicable to Phlx's own members. Additionally, (1) such temporary member shall be deemed to have satisfied, and Phlx will waive specific compliance with, Rules governing or applying to the maintenance of a person's or a firm's status as a member of Phlx, including all dues, fees and charges imposed generally upon Phlx members based on their status as such; (2) such temporary member shall have none of the rights of a Phlx member except the right to conduct business on Phlx to the extent described in this Rule; (3) the member organization associated with such temporary member, if any, shall be responsible for all obligations arising out of that temporary member's activities on or relating to Phlx; (4) the clearing member of such temporary member shall guarantee and clear the transactions of such temporary member on the Phlx; and (5) such temporary member shall only be permitted (x) to act in those Phlx capacities that are authorized by Phlx and that are comparable to capacities in which the temporary member has been authorized to act on the Disabled Exchange, and (y) to trade in those option classes in which the temporary member is authorized to trade on the Disabled Exchange.

(d) Member Proceedings.

(i) If the Phlx initiates an enforcement proceeding with respect to the trading during a backup period of the singly or multiply listed options of the Disabled Exchange by a temporary member of the Phlx or the exclusively listed options of the Disabled Exchange by a member of the Disabled Exchange (other than a Phlx member who is a temporary member of the Disabled Exchange), and such proceeding is in process upon the conclusion of the backup period, the Phlx may transfer responsibility for such proceeding to the Disabled Exchange following the conclusion of the backup period. Arbitration of any disputes with respect to any trading during a backup period of singly or multiply listed options of the Disabled Exchange or of exclusively listed options of

the Disabled Exchange on the Disabled Exchange's facility at the Phlx will be conducted in accordance with Phlx Rules, unless the parties to an arbitration agree that it shall be conducted in accordance with the rules of the Disabled Exchange.

(ii) If the Backup Exchange initiates an enforcement proceeding with respect to the trading during a backup period of Phlx singly or multiply listed options by a temporary member of the Backup Exchange or Phlx exclusively listed options by a Phlx member (other than a member of the Backup Exchange who is a temporary member of the Phlx), and such proceeding is in process upon the conclusion of the backup period, the Backup Exchange may transfer responsibility for such proceeding to the Phlx following the conclusion of the backup period. Arbitration of any disputes with respect to any trading during a backup period of Phlx singly or multiply listed options on the Backup Exchange or of Phlx exclusively listed options on the facility of the Phlx at the Backup Exchange will be conducted in accordance with the rules of the Backup Exchange, unless the parties to an arbitration agree that it shall be conducted in accordance with Phlx Rules.

(e) Member Preparations. Phlx members are required to take appropriate actions as instructed by the Exchange to accommodate Phlx's backup trading arrangements.

### **Section 11. U.S. Dollar-Settled Foreign Currency Option Closing Settlement Value**

U.S. dollar-settled foreign currency options are settled in U.S. dollars.

The closing settlement value for the U.S. dollar-settled FCO on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona shall be the Exchange Spot Price at 12:00:00 Eastern Time (noon) on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day prior to the expiration date unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances.

Neither the Exchange, nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current settlement value or the closing settlement value resulting from an act, condition, or cause beyond the reasonable control of the Exchange including but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission, or delay in the reports of transactions in one or more underlying currencies or any error, omission or delay in the reports of the current settlement value or the closing settlement value by the Exchange.

The Exchange shall post the closing settlement value on its website or disseminate it through one or more major market data vendors.

### **Options 4A Options Index Rules**



**Section 1 Applicability**

(a) The Rules in Options 4A are applicable only to index options (options on indices of securities as defined below). In addition, except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to stock options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of index options.

**Section 2. Definitions.**

(a) The following terms as used in the Rules in this Section shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term "aggregate exercise price" means the exercise price of the option contract times the index multiplier.

(2) The term "American option" or "American-style index option" means an option on an industry or market index that can be exercised on any business day prior to expiration.

(3) The term "A.M. settled index option" means an index option for which the current index value at expiration shall be determined as provided in Options 4A, Section 12(e).

(4) The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation the current index value times the index multiplier.

(5) The term "covered" in respect of a short position in an index call option contract in an account means that the writer holds in the same account a long position in an index call option for the same underlying index with the same index multiplier as the short call and the expiration date of the long call is the same as or subsequent to the expiration date of the short call and the exercise price of the long call is equal to or less than the exercise price of the short call. The term "covered" in respect of a short position in an index put option contract in an account means that the writer holds in the same account a long position in an index put option for the same underlying index with the same index multiplier as the short put and the expiration date of the long put is the same as or subsequent to the expiration date of the short put and the exercise price of the long put is equal to or greater than the exercise price of the short put.

(6) The term "closing index value" in respect of a particular index means the last index value reported on a business day.

(7) The term "current index value" in respect of a particular index means the level of the index that is derived from the reported prices of the underlying securities that are the basis of the index, as reported by the reporting authority for the index.

(8) The term "exercise price" means the specific price per unit at which the current index value may be purchased in the case of a call or sold in the case of a put upon the exercise of the option.

(9) The term "European option" or "European-style index option" means an option on an industry or market index that can be exercised only on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day prior to the day it expires.

(10) The term "expiration date" means, in the case of options on stock indexes, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange is not open for business, the preceding day on which the Exchange is open for business.

(11) The terms "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

(12) The term "index multiplier" means the amount specified in the contract by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract.

(13) The terms "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

(14) The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to The Options Clearing Corporation the current index value times the index multiplier.

(15) The term "Quarterly Options Series" means a series in an index options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

(16) The term "reporting authority" in respect of a particular index means the institutions or reporting service designated by the Exchange as the official source for calculating and determining the current value or the closing index value of the index.

(17) The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively.

(18) The term "underlying security" or "underlying securities" with respect to an index option contract means any of the securities that are the basis for the calculation of the index.

Supplementary Material to Options 4A, Section 2

.01 For any series of index options the Exchange may, in its discretion, provide that the calculation of the final index settlement value of any index on which options are traded at the Exchange will be determined by reference to the prices of the constituent stocks at a time other than the close of trading on the last trading day before expiration.

.02 The term "narrow-based index" includes indices the constituents of which are all headquartered within a single country.

**Section 3. Designation of the Index**

(a) The underlying securities comprising the index shall be selected by the Exchange or by the index publisher if different from the Exchange and may be revised from time to time, if in the Exchange's or index publisher's discretion such revision is necessary or appropriate to maintain the quality and character of the index. The underlying securities that are the basis for the calculation of the index need not meet the requirements in Options 4, Section 3. The listing of a class of index options on a new underlying index will be treated by the Exchange as a proposed rule change subject to filing with and approved by the SEC under Section 19(b) of the Exchange Act.

(b) Notwithstanding paragraph (a) above, the Exchange may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index

each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(i) With respect to the Gold/Silver Index, no single component shall account for more than 35% of the weight of the Index and the three highest weighted components shall not account for more than 65% of the weight of the Index. If the Index fails to meet this requirement, the Exchange shall reduce position limits to 8000 contracts on the Monday following expiration of the farthest-out, then trading, non-LEAP series.

(7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Options 4, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS Stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter and a modified capitalization-weighted index will be rebalanced at least twice annually;

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The conditions stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the conditions stated in subparagraph (b)(6) must be satisfied only as to the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, the Exchange may trade options on a broad-based (market) index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Options 4A, Section 2(b)(11);

(2) Options on the index are designated as A.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least \$ 75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least \$ 100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Options 4, Section 3 applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS Stock" as defined in rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange;

(12) The Exchange reasonably believes it has adequate System capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The conditions set forth in subparagraphs (d)(1), (2), (3), (9), (10), (11), (12), (13), (14) and (15) must continue to be satisfied. The conditions set forth in subparagraphs (d)(5), (6), (7) and (8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

#### (f) Alpha Index Options

(1) Alpha Index options will be A.M.-settled. The exercise settlement value will be based upon the opening prices of the individual stock or ETF from the primary listing market on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date.

(2) At the time of listing an Alpha Index option, options on each underlying component of an Alpha Index will also be listed and traded on the Exchange and will meet the requirements of Options 4, Section 3, Criteria for Underlying Securities. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,250,000 shares per day in the preceding twelve months.

(3) Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index will continue to meet the continued listing standards set forth by Options 4, Section 4, Withdrawal of Approval of Underlying Securities or Options. Additionally, each underlying component's trading volume (in all markets in which the underlying security is traded) must have averaged at least 2,000,000 shares per day in the preceding twelve months.

(4) No Alpha Index option will be listed unless and until options overlying each of the Alpha Index component securities have been listed and traded on a national securities exchange with an average daily options trading volume during the three previous months of at least 10,000 contracts. Following the listing of an Alpha Index option, options on each of the component securities of the Alpha Index must continue to meet this options average daily volume standard.

#### **Section 4. Reserved**

#### **Section 5. Dissemination of Information**

(a) The Exchange shall disseminate or shall assure that the closing index value is disseminated after the close of business and the current index value is disseminated from time-to-time on days on which transactions in index options are made on the Exchange.

(b) The Exchange shall maintain, in files available to the public, information identifying the stocks whose prices are the basis for calculation of the index and the method used to determine the current index value.

#### **Section 6. Position Limits**

(a) The position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market except as provided below. Certain positions must be aggregated in accordance with paragraph (d) or (e) below.

(i) Respecting the Full Value Russell 2000<sup>®</sup> Options and the Reduced Value Russell 2000<sup>®</sup> Options, there shall be no position limits.

(ii) Respecting the Full Value Nasdaq 100 Options and the Reduced Value Nasdaq 100 Options, there shall be no position limits.

(iii) Respecting the Full Value and Reduced Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000<sup>®</sup> Index, Russell 3000<sup>®</sup> Value Index, Russell 3000<sup>®</sup> Growth Index, Russell 2500<sup>™</sup> Index, Russell 2500<sup>™</sup> Value Index, Russell 2500<sup>™</sup> Growth Index, Russell 2000<sup>®</sup> Value Index, Russell 2000<sup>®</sup> Growth Index, Russell 1000<sup>®</sup> Index, Russell 1000<sup>®</sup> Value Index, Russell 1000<sup>®</sup> Growth Index, Russell Top 200<sup>®</sup> Index, Russell Top 200<sup>®</sup> Value Index, Russell Top 200<sup>®</sup> Growth Index, Russell MidCap<sup>®</sup> Index, Russell MidCap<sup>®</sup> Value Index, Russell MidCap<sup>®</sup> Growth Index, Russell Small Cap Completeness<sup>®</sup> Index, Russell Small Cap Completeness<sup>®</sup> Value Index and Russell Small Cap Completeness<sup>®</sup> Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

(b)(i) In determining compliance with Options 9, Section 13, option contracts on a narrow-based (industry) index shall, subject to the procedures specified in subparagraph (iii) of this Rule, be subject to the following position limits:

— 18,000 contracts (or 54,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index) if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (b), that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or

— 24,000 contracts (or 72,000 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index) if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (b), that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or

— 31,500 contracts (or 94,500 contracts for options on the PHLX Oil Service Sector, PHLX Semiconductor Sector, PHLX Utility Sector, PHLX Gold/Silver Sector, PHLX Housing Sector, and SIG Oil Exploration & Production Index)) if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred, or

— 44,000 contracts total with respect to the KBW Bank Index.

(ii) The Exchange shall make the determinations required by subparagraph (i) of this paragraph (b) with respect to options on each industry index at the commencement of



trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(iii) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in subparagraph (i) of this paragraph (b), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (i) of this paragraph (b), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring option series relating to such particular industry index, which is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next succeeding semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (i) of this paragraph (b).

(c) Reporting Requirements for Options on Market Indexes.—Each member or member organization that maintains a position on the same side of the market in excess of 100,000 contracts for its own account or for the account of a customer in the Full Value Russell 2000® Options, RUT; or in excess of 100,000 contracts for its own account or for the account of a customer in Full Value Nasdaq 100 Options, NDX, must file a report with the Exchange that includes, but is not limited to, data related to the option positions, whether such positions are hedged and if applicable, a description of the hedge and information concerning collateral used to carry the positions. Market Makers are exempt from this reporting requirement. For positions exceeding the position limit in paragraph (a), Supplementary Material .01 contains the requirements for qualifying for the Index Hedge Exemption under this Rule.

(d) Except as provided in section (f) below with respect to options on Alpha Indexes, index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(e) Aggregation—Full value, reduced value, long term and quarterly expiring options based on the same index shall be aggregated. Reduced value or mini-size contracts shall be aggregated with full value or full-size contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in Short Term Options Series and Quarterly Options Series shall be aggregated with positions in options contracts of the same index. Nonstandard Expirations (as provided for in Options 4A, Section 5(b)(vii)) on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

(f) The position limit for an option on an Alpha Index shall be 60,000 contracts on the same side of the market unless the Target Component of the Alpha Index is an exchange traded fund share, in which case the position limit shall be 15,000 contracts on the same side of the market.

Positions in Alpha Index options will be aggregated with positions in equity options on the underlying securities for purposes of determining compliance with position limits.

Supplementary Material to Options 4A, Section 6

**.01 Index Hedge Exemption.**

(a) Index option positions may be exempt from established position limits for each option contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each option position to be exempted is hedged by a position in at least: (i) respecting industry index options, 75% of the number of component securities underlying the index, (ii) respecting market index options, 20 stocks in four industry groups comprising the index, of which no one component security accounts for more than 15% of the value of the portfolio hedging the index option position, or (iii) respecting Alpha Index options, each of the component securities underlying the index. In addition, the underlying value of the option position may not exceed the value of the underlying portfolio.

(b) The value of the underlying portfolio is:

(1) the total market value of the net stock position; less

(2) the value of:

(A) any offsetting calls and puts in the respective index option; and

(B) any offsetting positions in related stock index futures or options; and

(C) any economically equivalent positions.

The portfolio must be previously established and the options must be carried in an account with an Exchange member. Securities used as a hedge pursuant to this provision may not be used to hedge other option positions.

(c) Prior Exchange approval on the appropriate form designated by the Exchange is required. In no event may position limits for any hedged industry index option exceed two times above the limits established under Options 4A, Section 5(b)(i), in addition to that limit. In certain instances, the Exchange may determine to permit positions less than two times above the existing limits. An increase in the maximum number of contracts exempt from position limits may be requested periodically, as dollar values may warrant. This exemption is in addition to the position limit and any other exemptions available under Exchange Rules.

(d) This exemption requires that both the options and stock positions be initiated and liquidated in an orderly manner. Specifically, a reduction of the options position must occur at or before the corresponding reduction in the stock portfolio position. Initiating or

liquidating positions should not be conducted in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes or with a view toward taking advantage of any differential in price between a group of securities and an overlying stock position. The Exchange's Regulatory staff must be notified in writing for approval in advance of liquidating or initiating any such position as well as of any material change in the portfolio or futures positions which materially effects the unhedged value of the qualified portfolio, as defined above.

(e) The Exchange's Regulatory staff will monitor daily that each option contract is hedged by the equivalent dollar amount of component securities. In addition, the hedge exemption form must be kept current, with information updated as warranted. Any information concerning the dollar value and composition of the stock portfolio, or its equivalent, the current hedged and aggregate option positions, any stock index futures positions must be promptly provided to the Exchange.

(f) If any member or member organization carrying an account which has received an exemption pursuant to this Rule has reason to believe that as a result of an opening transaction, the position telescoping provisions of this Rule, or the execution of CMTA transactions, that its customer, acting alone or in concert with others, directly or indirectly, violates this position limit exemption, then the member or member organization has violated this Rule. Violations of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the hedge exemption and subsequent denial of an application for a hedge exemption thereunder.

.02 Firm Facilitation Exemption—A member organization may be exempt from established position limits for index option positions held in its proprietary account where such position will facilitate an order for a customer of that member organization, provided that such position satisfies the following:

(a) *Maximum limit:* the facilitating position may exceed the applicable position limit by two times that limit, in addition to the allowable amount. For example, where the position limit is 25,000 contracts, a firm facilitation exemption is available for an additional 50,000 contracts. This exemption is in addition to any other exemptions available under Exchange Rules.

(b) *Approval Procedure:* prior approval from an Options Exchange Official and the submission of a complete Firm Facilitation Form, which must be kept current, are required. Approval may be granted on the basis of verbal representations, in which case the member organization shall submit to the Exchange's Regulatory staff a completed form respecting such approval within two business days or the time specified when approval is granted. A member organization may request an exemption based on interest expressed by its customer, prior to obtaining an order. This exemption is not available where either the customer or facilitation order are all or none or fill or kill orders.

The facilitation firm shall promptly provide the Exchange with information or documents requested concerning the exempted and hedging positions. A copy of all applicable order tickets must be provided to the Exchange's Regulatory staff on the day of execution.

The facilitation firm shall establish and liquidate its own as well as its customer's option and stock positions in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes nor with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The facilitation firm shall notify the Exchange of any material change in the exempted option position or hedge. The facilitation firm shall not increase the exempt option position once it is liquidated unless prior approval is again received pursuant to this Rule.

(c) *Facilitation Procedure*: compliance with the facilitation procedures of Options 8, Section 30(b) is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate.

(d) *Hedge*: to remain qualified, the facilitation firm must hedge all exempt option positions within five business days after the execution of the order and furnish the Exchange's Regulatory staff with documentation reflecting the resulting hedged positions.

(e) Violations of these requirements, absent reasonable justification or excuse, shall result, in addition to any disciplinary action, in withdrawal of the exemption and may form the basis for subsequent denial of an application for an exemption hereunder.

**.03 Exemptions Granted by Other Options Exchanges** - A member may rely upon any available exemptions from applicable position limits granted from time to time by another options exchange for any options contract traded on the Exchange provided that such member:

(a) provides the Exchange with a copy of any written exemption issued by another options exchange or a written description of any exemption issued by another options exchange other than in writing containing sufficient detail for Exchange Regulatory staff to verify the validity of that exemption with the issuing options exchange, and

(b) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the member's trading on the Exchange.

#### **.04 Delta-Based Index Hedge Exemption**

The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules. An index option position of a member or, non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed under this Options 4A, Section 6, subject to the following:

(A) The term "delta neutral" refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term "correlated instruments" means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities).

(B) An index option position that is not delta neutral shall be subject to position limits in accordance with this Options 4A, Section 6 (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by units of trade that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

(C) A "permitted pricing model" shall have the meaning as defined in Exchange Options 9, Section 13(n).

(D) Effect on Aggregation of Accounts

(1) Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such member or non-member affiliate.

(2) Notwithstanding subparagraph (D)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Options 9, Section 13(k), exists between such affiliates or trading units; and

(ii) the entity has provided (by the member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's or net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate .

#### (E) Obligations of Members

(1) A member that relies on this exemption for a proprietary index options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in a correlated instrument to provide to the Exchange or The Options Clearing Corporation such information regarding such account or position as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The index option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

(3) A member carrying an account that includes an index option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member affiliate and must provide to the Exchange.

(i) a written certification to the Exchange that the non-member affiliate is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) a written statement confirming that such non-member affiliate:

(a) is relying on this exemption;

(b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(c) will promptly notify the member if it ceases to rely on this exemption;

(d) authorizes the member to provide to the Exchange or The Options Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(F) Reporting.

Each member (other than an Exchange market-maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Exchange Options 6E, Section 2, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Supplementary Material .04(D) of this Options 4A, Section 6 shall also report, in accordance with Options 6E, Section 2 for each such account that holds an index option position subject to this exemption in excess of the levels specified in this Options 4A, Section 6, the net delta and the options contract equivalent of the net delta of such position.

(G) Records.

Each member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

**Section 7. Reserved**

**Section 8. Reserved**

**Section 9. Reserved**

**Section 10. Limitation of Exchange Liability**

Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current index value or the closing index value resulting from any negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities; or any error, omission or delay in the reports of the current index value or the closing index value by the Exchange or the reporting authority.

**Section 11. Reserved.****Section 12. Terms of Option Contracts****(a) General.**

- (1) *Meaning of Premium Bids and Offers.* Bids and offers shall be expressed in terms of dollars and decimal equivalents of dollars per unit of the index (e.g., a bid of 85.50 would represent a bid of \$85.50 per unit).
- (2) *Exercise Prices.* Meaning of Premium Bids and Offers. Bids and offers shall be expressed in terms of dollars and decimal equivalents of dollars per unit of the index (e.g., a bid of 85.50 would represent a bid of \$85.50 per unit).
- (A) PHLX Gold/Silver Index, if the strike price is less than \$200,
- (B) PHLX Housing Index, if the strike price is less than \$200,
- (C) PHLX Oil Service Index, if the strike price is less than \$200,
- (D) PHLX Semiconductor Index, if the strike price is less than \$200,
- (E) PHLX Utility Index, if the strike price is less than \$200,
- (F) PHLX/KBW Bank Index, if the strike price is less than \$200,
- (G) Russell 2000<sup>®</sup> Index, if the strike price is less than \$200,
- (H) Reduced Value Russell 2000<sup>®</sup> Index, if the strike price is less than \$200,
- (I) Reduced Value Nasdaq 100<sup>®</sup> Index (Reduced Value Nasdaq 100<sup>®</sup> Options),
- (J) Reduced value long term options, also known as LEAPS;
- (K) Russell 3000<sup>®</sup> Index, if the strike price is less than \$200;



- (L) Russell 3000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (M) Russell 3000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (N) Russell 2500<sup>TM</sup> Index, if the strike price is less than \$200;
- (O) Russell 2500<sup>TM</sup> Value Index, if the strike price is less than \$200;
- (P) Russell 2500<sup>TM</sup> Growth Index, if the strike price is less than \$200;
- (Q) Russell 2000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (R) Russell 2000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (S) Russell 1000<sup>®</sup> Index , if the strike price is less than \$200;
- (T) Russell 1000<sup>®</sup> Value Index , if the strike price is less than \$200;
- (U) Russell 1000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (V) Russell Top 200<sup>®</sup> Index , if the strike price is less than \$200;
- (W) Russell Top 200<sup>®</sup> Value Index , if the strike price is less than \$200;
- (X) Russell Top 200<sup>®</sup> Growth Index , if the strike price is less than \$200;
- (Y) Russell MidCap<sup>®</sup> Index , if the strike price is less than \$200;
- (Z) Russell MidCap<sup>®</sup> Value Index , if the strike price is less than \$200;
- (AA) Russell MidCap<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (BB) Russell Small Cap Completeness<sup>®</sup> Index , if the strike price is less than \$200;
- (CC) Russell Small Cap Completeness<sup>®</sup> Value Index, if the strike price is less than \$200;
- (DD) Russell Small Cap Completeness<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (EE) Reduced Value Russell 3000<sup>®</sup> Index, if the strike price is less than \$200;
- (FF) Reduced Value Russell 3000<sup>®</sup> Value Index, if the strike price is less than \$200;
- (GG) Reduced Value Russell 3000<sup>®</sup> Growth Index, if the strike price is less than \$200;
- (HH) Reduced Value Russell 2500<sup>TM</sup> Index, if the strike price is less than \$200;

- (II) Reduced Value Russell 2500™ Value Index, if the strike price is less than \$200;
- (JJ) Reduced Value Russell 2500™ Growth Index, if the strike price is less than \$200;
- (KK) Reduced Value Russell 2000® Value Index, if the strike price is less than \$200;
- (LL) Reduced Value Russell 2000® Growth Index, if the strike price is less than \$200;
- (MM) Reduced Value Russell 1000® Index , if the strike price is less than \$200;
- (NN) Reduced Value Russell 1000® Value Index , if the strike price is less than \$200;
- (OO) Reduced Value Russell 1000® Growth Index, if the strike price is less than \$200;
- (PP) Reduced Value Russell Top 200® Index , if the strike price is less than \$200;
- (QQ) Reduced Value Russell Top 200® Value Index , if the strike price is less than \$200;
- (RR) Reduced Value Russell Top 200® Growth Index , if the strike price is less than \$200;
- (SS) Reduced Value Russell MidCap® Index , if the strike price is less than \$200;
- (TT) Reduced Value Russell MidCap® Value Index, if the strike price is less than \$200;
- (UU) Reduced Value Russell MidCap® Growth Index, if the strike price is less than \$200;
- (VV) Reduced Value Russell Small Cap Completeness® Index , if the strike price is less than \$200;
- (WW) Reduced Value Russell Small Cap Completeness® Value Index, if the strike price is less than \$200;
- (XX) Reduced Value Russell Small Cap Completeness® Growth Index, if the strike price is less than \$200;

(3) *Strike Prices.* The Exchange may also determine to list strike prices at no less than \$2.50 intervals for options on indexes delineated in this rule in response to demonstrated customer interest or Lead Market Maker request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an Market Maker with respect to trading for the Market Maker's own account.

(A) Notwithstanding any other provision regarding strike prices in this Options 4A, Section 12, non- Short Term Options that are on an index class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration of such

Related non-Short Term Option series in the same manner as permitted in this Rule Options 4A, Section 12(b)(4) and in the same strike price intervals that are permitted in this Options 4A, Section 12(b)(4).

(4) Expiration Months and Weeks. Index options contracts may expire at three (3)-month intervals or in consecutive weeks or months. The Exchange may list: (i) up to six (6) standard monthly expirations at any one time in a class, but will not list index options that expire more than twelve (12) months out; (ii) up to 12 standard monthly expirations at any one time for any class that the Exchange (as the Reporting Authority) uses to calculate a volatility index; and (iii) up to 12 standard (monthly) expirations in NDX options.

(b) After a particular class of stock index options has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Within each approved class of stock index options, the Exchange shall open for trading a minimum of one expiration month and series for each class of approved stock index options and may also open for trading series of options having not less than nine and up to 60 months to expiration (long-term options series) as provided in subparagraph (b)(2). Prior to the opening of trading in any series of stock index options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(1) Additional series of stock index options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying index moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an index may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on indexes until the fourth business day prior to the business day of expiration, or, in the case of an index option contract expiring on a day that is not a business day, up to the fifth business day prior to expiration.

### **(2) Long-term Option Series**

The Exchange may list, with respect to any class of stock index options, series of options having not less than nine and up to 60 months to expiration, adding up to ten expiration months. Such series of options may be opened for trading simultaneously with series of options trading pursuant to this rule. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine months.

### **(3) Quarterly Options Series Program**

The Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either Index Options or options on Exchange Traded Funds. In addition, the Exchange may also

list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules.

(A) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters as well as the fourth quarter of the next calendar year.

(B) Quarterly Options Series shall be P.M. settled.

(C) The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but not more than five, strike prices above and two, but not more than five, strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may open for trading additional Quarterly Options Series of the same class if the Exchange deems it necessary to maintain an orderly market, to meet customer demand or the current index value of the underlying index moves substantially from the exercise price of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional Quarterly Options Series that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. The Exchange may open additional strike prices of a Quarterly Options Series that are above the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five. The Exchange may open additional strike prices of a Quarterly Options Series that are below the value of the underlying index provided that the total number of strike prices below the value of the underlying index is no greater than five. The opening of any new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(D) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

#### **(4) Short Term Option Series Program**

After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire at the close of business on each of the next five consecutive Fridays that are business days ("Short Term Option Expiration Date"). If the Exchange is not open for business on the

respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(A) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(B) No Short Term Option Series on an index option class may expire in the same week during which any monthly option series on the same index class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same index class.

(C) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index.

(D) If the Exchange has opened less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current value of the underlying index moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current value of the underlying index provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange

will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Options 4A, Section 12(b)(4), that are between 10% and 30% above or below the price of the underlying security. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(E) The interval between strike prices on Short Term Option Series may be (1) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all index classes that participate in the Short Term Option Series Program; or (2) \$0.50 for index classes that trade in one dollar increments in Related non-Short Term Options and that participate in the Short Term Option Series Program. Related non-Short Term Option series shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in Options 4A, Section 12(b)(4) and in the same strike price intervals that are permitted in this Options 4A, Section 12(b)(4).

#### **(5) Nonstandard Expirations Pilot Program**

(A) Weekly Expirations. The Exchange may open for trading Weekly Expirations on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). Weekly Expirations shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that Weekly Expirations shall be P.M.-settled and new series in Weekly Expirations may be added up to and including on the expiration date for an expiring Weekly Expiration.

The maximum number of expirations that may be listed for each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class is the maximum number of expirations permitted for standard index options in Options 4A, Section 12(a)(4). Weekly Expirations need not be for consecutive Monday, Wednesday, or Friday expirations as applicable; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are initially listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Monday, Wednesday, or Friday and the Exchange lists EOMs and Weekly Expirations as applicable in a given class, the Exchange will list an EOM instead of a Weekly Expiration in the given class. Other expirations in the same class are not counted as

part of the maximum number of Weekly Expirations for a broad-based index class. If the Exchange is not open for business on a respective Monday, the normally Monday expiring Weekly Expirations will expire on the following business day. If the Exchange is not open for business on a respective Wednesday or Friday, the normally Wednesday or Friday expiring Weekly Expirations will expire on the previous business day.

(B) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOMs shall be P.M.-settled and new series in EOMs may be added up to and including on the expiration date for an expiring EOM.

The maximum number of expirations that may be listed for EOMs in a given class is the same as the maximum number of expirations permitted for standard options on the same broad-based index. EOM expirations need not be for consecutive end of month expirations; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(C) Duration of Nonstandard Expirations Pilot Program. The Nonstandard Expirations Pilot Program shall be through May 4, 2020.

(D) Weekly Expirations and EOM Trading Hours. Transactions in Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:15 pm (Eastern Time), except that on the last trading day, transactions in expiring Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time ) and 4:00 p.m. (Eastern time).

(c) On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date of a particular series of index options, such option shall freely trade until 4:00 P.M., unless the Board of Directors has established different hours of trading for certain index options.

(d) Index Values for Settlement. The Rules of The Options Clearing Corporation specify that, unless the Rules of the Exchange provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index value for the day on which the index options contract is exercised in accordance with the Rules of The Options Clearing Corporation or, if such day is not a business day, for the most recent business day.

(e) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of The Options Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(I) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Options 4A, Section 12(g), unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of The Options Clearing Corporation; and

(II) in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on the Exchange:

(i) PHLX Semiconductor Sector

(ii) PHLX Housing Sector

(iii) PHLX Oil Service Sector

(iv) KBW Bank Index

(v) Full Value Nasdaq 100 Options

(vi) Reduced Value Nasdaq 100 Options

(f) Index Level. The reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of The Options Clearing Corporation.



Supplementary Material to Options 4A, Section 12

.01 Transactions in broad-based (market) index options traded on the Exchange, including Full Value Russell 2000<sup>®</sup> Options and Reduced Value Russell 2000<sup>®</sup> Options, Full and Reduced Value Russell 3000<sup>®</sup> Index, Full and Reduced Value Russell 3000<sup>®</sup> Value Index, Full and Reduced Value Russell 3000<sup>®</sup> Growth Index, Full and Reduced Value Russell 2500<sup>TM</sup> Index, Full and Reduced Value Russell 2500<sup>TM</sup> Value Index, Full and Reduced Value Russell 2500<sup>TM</sup> Growth Index, Full and Reduced Value Russell 2000<sup>®</sup> Value Index, Full and Reduced Value Russell 2000<sup>®</sup> Growth Index, Full and Reduced Value Russell 1000<sup>®</sup> Index, Full and Reduced Value Russell 1000<sup>®</sup> Value Index, Full and Reduced Value Russell 1000<sup>®</sup> Growth Index, Full and Reduced Value Russell Top 200<sup>®</sup> Index, Full and Reduced Value Russell Top 200<sup>®</sup> Value Index, Full and Reduced Value Russell Top 200<sup>®</sup> Growth Index, Full and Reduced Value Russell MidCap<sup>®</sup> Index, Full and Reduced Value Russell MidCap<sup>®</sup> Value Index, Full and Reduced Value Russell MidCap<sup>®</sup> Growth Index, Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Index, Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Value Index, and Full and Reduced Value Russell Small Cap Completeness<sup>®</sup> Growth Index and Full Value Nasdaq 100 Options and Reduced Value Nasdaq 100 Options may be effected on the Exchange until 4:15 P.M. each business day, through the expiration date. Transactions in Alpha Index options may also be effected on the Exchange until 4:15 P.M. each business day, through the expiration date.

.02 Notwithstanding subsection (a) to this Options 4A, Section 12, the interval between strike prices of series of Reduced Value Nasdaq 100 Options will be \$1 or greater, subject to following conditions:

(a) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for Reduced Value Nasdaq 100 Options, and will list at least two strike prices above and two strike prices below the current value of the Nasdaq-100 Index at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for Reduced Value Nasdaq 100 Options that are within 5 points from the closing value of the Nasdaq-100 Index on the preceding day.

(b) Additional Series. Additional series of the same class of Reduced Value Nasdaq 100 Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the underlying Nasdaq-100 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of the Nasdaq-100 Index. The Exchange may also open additional strike prices that are more than 30% above or below the current Nasdaq-100 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in Reduced Value Nasdaq 100 Options.

(c) The Exchange shall not list LEAPS on Reduced Value Nasdaq 100 Options at intervals less than \$2.50.

(d) (1) Delisting Policy. With respect to Reduced Value Nasdaq 100 Options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of the Nasdaq-100 Index, and delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(2) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Reduced Value Nasdaq 100 Options series eligible for delisting shall be granted.

(3) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Reduced Value Nasdaq 100 Options.

.03 Notwithstanding subsection (a) to this Options 4A, Section 12, the interval between strike prices of series of options on the PHLX Gold/Silver Index, PHLX Housing Index, PHLX Oil Service Index, SIG Oil Exploration & Production Index™, PHLX Semiconductor Index, KBW Bank Index, SIG Energy MLP Index™, and Reduced Value Russell 2000® Index (individually the "\$1 Index" and together the "\$1 Indexes"), which may also be known as sector indexes, will be \$1 or greater, subject to following conditions:

(a) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for each \$1 Index, and will list at least two strike prices above and two strike prices below the current value of each \$1 Index at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for each \$1 Index that are within 5 points from the closing value of each \$1 Index on the preceding day.

(b) Additional Series. Additional series of the same class of each \$1 Index may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when each underlying \$1 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of each \$1 Index. The Exchange may also open additional strike prices that are more than 30% above or below each current \$1 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the

Exchange may list up to sixty (60) additional series per expiration month for each series in \$1 Indexes.

(c) The Exchange shall not list LEAPS on \$1 Indexes at intervals less than \$2.50.

(d) (1) Delisting Policy. With respect to each \$1 Index added pursuant to the above paragraphs, the Exchange will regularly review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of each \$1 Index, and in each \$1 Index may delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(2) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in \$1 Index options eligible for delisting may be granted.

.04 Notwithstanding subsection (a) to this Options 4A, Section 12, the interval between strike prices of series of Alpha Index options will be \$1 or greater. The Exchange will list at least two strike prices above and two strike prices below the current value of each Alpha Index option at about the time a series is opened for trading on the Exchange. The Exchange may also list additional strike prices at any price point, with a minimum of a \$1.00 interval between strike prices, as required to meet the needs of customers.

.05 The procedures set forth in Exchange rules for determining the current index value at expiration shall not be used if the current index value at expiration is fixed in accordance with the Rules and By- Laws of The Options Clearing Corporation.

### **Section 13. Reserved**

### **Section 14. Reserved**

### **Section 15. Exercise of Option Contracts**

With respect to index option contracts, clearing members are required to follow the procedures of The Options Clearing Corporation for tendering exercise notices. Clearing Members must follow the procedures of The Options Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in any account at the Option Clearing Corporation. Member organizations must also follow the procedures set forth below with respect to American-style cash-settled index options:

(i) For all contracts exercised by the member organization or by any customer of the member organization, an "exercise advice" must be time stamped and delivered by the

member organization in such form or manner prescribed by the Exchange no later than five (5) minutes after the close of trading on that day.

(ii) Subsequent to the delivery of an "exercise advice," should the member organization or a customer of the member organization determine not to exercise all or part of the advised contracts, the member organization must also deliver an "advice cancel" in such form or manner prescribed by the Exchange no later than five (5) minutes after the close of trading on that day.

(iii) The Exchange may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph if unusual circumstances are present.

(iv) No member organization may time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the member organization knew or had reason to know that the contracts had not yet been purchased.

(v) The failure of any member organization to follow the procedures in this rule may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

(vi) Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.

(vii) The procedures set forth in subparagraphs (i)-(ii) above do not apply (a) on the business day prior to expiration in series expiring on a day other than a business day or (b) on the expiration day in series expiring on a business day.

(viii) Each member organization shall prepare a memorandum of every exercise instruction received showing by time stamp the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rule 17a-4(b).

(ix) Each member organization shall establish fixed procedures to ensure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

## **Section 16. Reserved**

## **Section 17. Other Restrictions on Options Transactions and Exercises**

With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day prior to the expiration date.

**Section 18. Trading Rotations, Halts or Reopenings****(a) Openings:**

(i) Industry Index—The opening rotation for industry index options may be held after the Exchange has received the opening price of the underlying index.

Once the Exchange has received the opening price of the underlying index, the opening rotation shall be held as soon as practicable.

(ii) Market Index—With respect to openings conducted manually, the opening rotation for market index options shall be held at or as soon as practicable after the opening of business on the Exchange.

Respecting openings conducted manually, the Lead Market Maker shall open first those series of an index option which have the nearest expiration. Thereafter, the Lead Market Maker shall open the remaining series in a manner he deems appropriate under the circumstances. One and one-half hours after the rotation, trading shall become subject to paragraph (c) of this Rule, unless an Options Exchange Official determines it is in the public interest to halt trading at an earlier time.

(iii) For the purposes of this Rule, an underlying security shall be deemed to have opened for trading on the primary market if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening.

(iv) With respect to automated openings in an Industry or Market Index conducted pursuant to Options 3, Section 8, the System will automatically open such options when the Exchange has received the opening price of the underlying index.

(v) An automated opening conducted pursuant to Options 3, Section 8 shall be considered a "rotation" for purposes of this Rule.

(b) Modified Rotations: In addition to the opening rotation procedure provided in paragraph (a) of this Rule, the Exchange may conduct a rotation in accordance with Options 3, Section 9(b).

(c) Halts: Trading on the Exchange in any option may be halted with the approval of an Options Exchange Official, whenever trading on the primary market in any underlying security is halted or suspended. Trading shall be halted whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are the following:

(i) trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;

(ii) the current calculation of the index derived from the current market prices of the stocks is not available;

(iii) a Trading System (for purposes of this Rule, "Trading System" is defined as the System, or any other Exchange quotation, transaction reporting, execution, order routing or other Systems for trading options) technical failure or failures including, but not limited to, the failure of a part of the central processing System, a number of member or member organization trading applications, or the electrical power supply to the System itself or any related System; or;

(iv) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

(v) In the event that trading is halted on the primary market in any underlying security, the Lead Market Maker may halt trading in the option overlying such index, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.

Trading in options on any Alpha Index may be halted for the same reasons as other index options pursuant to this Rule, and shall be halted when trading is halted in options overlying either of the two index component securities.

(d) **Reopenings:** Trading in any class or series of index options that has been subject of a halt by the Exchange may be resumed upon a determination by an Options Exchange Official that the conditions which led to the halt are no longer present. In addition, an Options Exchange Official must conclude in his best judgment that the interests of a fair and orderly market are served by a resumption of trading. The definition of "open for trading" appears in subparagraph (a)(iii) above.

(e) No closing rotation for expiring index options shall be required.

(f) **Index Options Trading after 4:00 P.M.:** With the prior approval of an Options Exchange Official, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided:

(i) Promptly after trading in underlying securities opens or re-opens, the trading rotation in any Exchange commences an opening or re-opening rotation in the corresponding options class pursuant to paragraphs (a), (b) or (d) above; or

(ii) If prior to 4:00 P.M., a trading rotation is in progress and an Options Exchange Official, determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 P.M. Any trading rotation commenced after 4:00 P.M. must be approved by an Options Exchange Official.

(iii) Index Options Trading after 4:15 P.M.—in applying this provision to broad-based index options, the relevant time is 4:15 P.M.

**Section 19. Limitation of Exchange Liability**

Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating the current index value or the closing index value resulting from any negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities; or any error, omission or delay in the reports of the current index value or the closing index value by the Exchange or the reporting authority.

**Section 20. Standard & Poor's® Index**

Standard & Poor's®, a division of McGraw-Hill Companies, Inc. makes no warranty, express or implied, as to results to be obtained by any person or any entity from the use of the S&P 500® Index or any data included therein in connection with the trading of option contracts thereon, or for any other use. Standard & Poor's® makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the S&P 500® Index or any data included therein in connection with the trading of options contracts thereon, or for any other use.

**Section 21. Nasdaq, Inc. Indexes**

Nasdaq, Inc. ("Nasdaq") does not guarantee the accuracy and/or uninterrupted calculation of any Nasdaq Index (including, but not limited to, the NASDAQ-100 Index® and the NASDAQ Internet Index<sup>SM</sup>) or any data included therein. Nasdaq makes no warranty, express or implied, as to results to be obtained by the Exchange, owners of options on any Nasdaq Index, or any other person or entity from the use of any Nasdaq Index or any data included therein. Nasdaq makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any Nasdaq Index or any data included therein. Without limiting any of the foregoing, in no event shall Nasdaq have any liability for any lost profits or special, incidental, punitive, indirect, or consequential damages, even if notified of the possibility of such damages.

**Options 4B Options on Treasury Securities****Section 1. Applicability of 1000D Series -Treasury Securities Options**

Unless otherwise specified, the rules in this Options 4B are applicable only to options on Treasury Securities of the United States Government ("Government") as defined below (Treasury securities"). These rules apply to all options on Treasury securities that are notes or bonds, as defined. Except to the extent that specific rules in this Series govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of options on Treasury securities.

**Section 2. Definitions - Treasury Securities Options**

(a) The following terms as used in the Rules in this Series shall, unless the context otherwise indicates, have the meanings herein specified regarding options on Treasury securities.

(1) *Treasury Securities* - The term "Treasury securities" (also known as Treasury debt securities) means a bond or note or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest (except debt securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association). Securities issued or guaranteed by individual departments or agencies of the United States are sometimes referred to by the title of the department or agency involved (e.g. a "Treasury security" is a debt instrument that is issued by the United States Treasury).

(2) *Treasury note* - The term "Treasury note" means a note issued by the U.S. Treasury with a term to maturity of at least two years but no more than ten years at the time of original issuance.

(3) *Treasury bond* - The term "Treasury bond" means a bond issued by the U.S. Treasury with a term to maturity of more than ten years at the time of original issuance.

(4) *Specific cusip option* - The term "specific cusip option" means an option having a specifically identified underlying Treasury security, which is required to be delivered upon exercise.

(5) *Exercise Price* - The term "exercise price" in respect of a specific cusip option means the specified price at which the underlying Treasury security may be purchased or sold upon the exercise of the option contract.

(6) *Aggregate Exercise Price* - The term "aggregate exercise price" in respect of a specific cusip option means the exercise price of an option contract multiplied by the principal amount of the underlying Treasury security covered by the option.

(7) *Covered* - The term "covered" in respect of a short position in a Treasury securities call option contract means that the writer holds in the same account on a principal for principal basis: (1) a long position in underlying Treasury securities that qualify for delivery upon exercise; (2) a long Treasury securities call option position for the same underlying security as the short call position where the expiration date of the long call position is the same as or subsequent to the expiration date of the short call position and the exercise price(s) of the long call position is equal to or less than the exercise price of the short call position; or (3) a custodial or Treasury securities escrow receipt pursuant to Options 4B, Section 22. The term "covered" in respect of a short position in a Treasury securities put option contract means that the writer holds in the same account on a principal for principal basis: (1) a long Treasury securities put option position for the same underlying security as the short put position where the expiration date of the long put position is the same as or subsequent to the expiration date of the short put position and the exercise price(s) of the long put position is equal to or greater than the exercise



price of the short put position or (2) a Treasury securities put guarantee letter pursuant to Options 4B, Section 22.

### **Section 3. Position Limits - Treasury Securities Options**

(a) Establishment of Position Limit. In determining position limit compliance, options on a Treasury security shall be subject to a contract limitation (whether long or short) of the put type and the call type on the same side of the market covering a value no greater than 7.5% of the value of the initial or reopened public issuance, rounded to the next lower \$100 million interval, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other lower amount of options as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options.

(1) In no event shall the position limit exceed a position on either side of the market covering a value in excess of \$750,000,000 of the underlying securities.

(2) Reasonable notice shall be given of each new position limit fixed by the Exchange, by notifying members thereof via Options Trader Alert ("OTA").

(b) Maintenance of Position Limit. In the event that any of the underlying Treasury securities are reported as "separate trading of registered interest and principal of securities" ("strips") in the Monthly Statement of the Public Debt of the United States Government, or such other report or compilation as may be selected from time to time by the Exchange, such stripping shall be taken into account in determining whether the position limit as initially established under paragraph (a) ("the established position limit") can be maintained (the remaining non-stripped underlying securities are hereinafter referred to as "the non-stripped securities").

(1) The established position limit may remain so long as the position limit covers a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities. In the event that the established position limit covers a principal amount of securities in excess of 7.5% of the non-stripped securities, the Exchange shall reestablish the position limit to cover a principal amount of underlying securities not in excess of 7.5% of the non-stripped securities. Revisions to the position limits as provided herein will become effective the Monday following the provision of notice thereof via OTA.

(2) Except as otherwise exempted under Exchange rules, persons whose positions exceed revised position limits may only engage in liquidating transactions until their positions are lower than the revised position limits.

### **Section 4. Exercise Limits - Treasury Securities Options**

In determining exercise limit compliance, the exercise limits for options on a Treasury security shall be equivalent to the position limits prescribed in Options 4B, Section 3.

### **Section 5. Reports Related to Position Limits and Liquidation of Positions - Treasury Securities Options**

For purposes of Options 6E, Section 2 and Options 9, Section 17, references to Options 9, Section 13 in connection with position limits shall be deemed, in the case of Treasury securities options, to be to Options 4B, Section 3. The reference in Options 6E, Section 2(a) to reports required of positions of 200 or more options shall, in the case of Treasury securities options, be revised to positions of options covering \$2 million or more principal amount of underlying Treasury securities, for example, the 3.125% bonds due in the year 2042.

### **Section 6. Designation of Treasury Securities Options**

Treasury securities options dealt in on the Exchange are designated by reference to the issuer of the underlying Treasury security, principal amount, expiration month (and year for the longest term option series), exercise price or nominal exercise price, type (put or call), stated or nominal rate of interest and stated date of maturity or nominal term to maturity (e.g. a specific cusip call option expiring in March and having an exercise price of 96 of the \$10,000 principal amount of a 3 3/4% Treasury bond that matures on August 15, 2041, is designated as a Treasury 3 3/4%—8/15/41 March 96 call.

### **Section 7. Criteria for Securities Underlying Treasury Securities Options**

(a) Treasury securities may be approved by the Exchange as underlying securities for Exchange transactions in specific cusip options, subject to such requirements as to size of original issuance, aggregate principal amount outstanding, and years to maturity.

(1) The original public sale of an underlying Treasury security shall be at least \$1 billion principal amount.

(2) In order to limit underlying Treasury securities that are approved for specific cusip options listings to the most recently issued and actively traded Treasury securities, Exchange approval of a Treasury security underlying Treasury options will only extend to the settled on-the-run Treasury security ("options listing timeframe"). However, the Exchange shall not approve a subsequent settled on-the-run Treasury security until after the expiration of all the options that are listed pursuant to the preceding options listing timeframe.

Any additional series of specific cusip Treasury options overlying the settled, on-the-run Treasury security may be opened only within the options listing timeframe.

(A) Notwithstanding, such Exchange approval of an underlying Treasury security may be extended in the event of the reopening of the underlying Treasury security by the Treasury, or in the event of issues where a reasonably active secondary market exists; and

(B) Prior to the end of an options listing timeframe, the Board (or a designee of the Board) shall withdraw approval of an underlying Treasury security at any time if it determines on the basis of information made publicly available by the Treasury that the security has a public issuance of less than \$750 million, excluding stripped securities.

**Section 8. Withdrawal of Approval of Underlying Treasury Securities or Options**

(a) The Board (or a designee of the Board) may determine, for any reason, to withdraw approval of any Treasury security that was initially approved for options trading pursuant to Options 4B, Section 7 as underlying securities.

(b) After any announcement by the Exchange of any such withdrawal or approval, each member organization shall, if requested by a customer to effect an option transaction in such Treasury securities, inform such customer of the withdrawal of approval prior to affecting any transactions in such securities.

**Section 9. Terms of Treasury Securities Options**

(a) General. A single Treasury security option covers \$10,000 principal amount of the underlying security. The expiration month and exercise price of Treasury security options of each series shall be determined by the Exchange at the time each series of options is first opened for trading.

(b) Expiration Months. Treasury security options will expire on a monthly basis, none further out than the options listing timeframe as defined in Options 4B, Section 7.

(c) Exercise. Treasury security options may be exercised only on the day that they expire. The exercise price of each series of Treasury security options shall be fixed at a price denominated in \$0.50. In the case of a specific cusip Treasury security option, the exercise price so determined shall be reasonably close to, and no more than 20% higher or lower than, the price at which the underlying security is traded in the primary market at the time the series of options is first opened for trading. The exercise price of such additional series will be fixed at a multiple of \$0.50.

**Section 10. Series of Treasury Securities Options Open for Trading**

(a) Initial Series of Specific Cusip Options. The Exchange may open for trading specific cusip Treasury security options at any time following the auction sale of the underlying security. At the time options are initially opened for trading on a newly auctioned underlying Treasury security, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading, pursuant to the requirements of Options 4B, Section 7.

(b) Additional Series of Options to Reflect Price Changes. After a class of specific coupon Treasury security options has been opened for trading in accordance with paragraph (a) of this Rule, additional series of options of the same class may be opened when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or to reflect substantial changes in prices of the underlying Treasury securities, pursuant to the requirements of Options 4B, Section 7.

**Section 11. Days and Hours of Business of Treasury Securities Options**

Hours during which Treasury securities options transactions may be made on the Exchange shall correspond to the hours during which equity options are normally traded.

**Section 12. Trading Rotations - Treasury Securities Options**

Options 3, Section 9 regarding trading rotations, halts and suspensions shall be applicable to Treasury securities options.

**Section 13. Trading Halts and Suspension of Trading, Obvious and Catastrophic Errors - Treasury Securities Options**

(a) Trading Halts and Suspension of Trading. In addition to the factors set forth in Options 3, Section 9, a factor that may be considered by Options Exchange Officials in connection with the institution of trading halts is that current quotations for the underlying Treasury securities are unavailable or have become unreliable; or that there is a need to prevent an unfair and disorderly market.

(b) Errors. Options 3, Section 20 regarding obvious errors and catastrophic errors shall be applicable to Treasury securities options.

**Section 14. Minimum Increment and Meaning of Premium Bids and Offers for Treasury Securities Options**

(a) Treasury securities options shall have a minimum increment of \$.01.

(b) Bids and offers for Treasury securities options shall be expressed in \$.01 increments.

**Section 15. Lead Market Maker and Registered Option Trader Obligations and Electronic Trading - Treasury Securities Options**

Options 2, Section 4 regarding obligations and restrictions applicable to Lead Market Makers and registered options traders and Options 3, Section 7 regarding the System shall be applicable to Treasury securities options.

**Section 16. Accommodation Trading - Treasury Securities Options**

Accommodation trading under the applicable terms and conditions of Options 8, Section 33 shall be available in each series of Treasury securities option contracts open for trading on the Exchange. However, bids or offers for opening transactions at a price of \$1 per option contract may be executed only with closing transactions that cannot at that time in open outcry be executed with another closing transaction.

**Section 17. Reconciliation of Unmatched Trades - Treasury Securities Options**

All members, member firms, and clearing members shall resolve unmatched trades in Treasury securities options from the previous day's trading no later than 9:00 a.m. (Eastern Time) of the following business day.

**Section 18. Limit Book for Treasury Securities Options**

There shall be a Limit Order book for Treasury securities options.

**Section 19. Bid/Ask Differentials - Treasury Securities Options**

(a) Without limiting the general obligation to deal for his account as stated in Options 2, Section 4, a Lead Market Maker or Market Maker holding an appointment in Treasury securities options, in the course of maintaining a fair and orderly market, is expected to bid and/or ask (offer) so as to create differences of:

- (1) no more than \$0.25 between the bid and offer for each option contract for which the bid is less than \$1;
- (2) no more than \$0.50 where the bid is \$1 or more but less than \$5;
- (3) no more than \$0.80 where the bid is \$5 or more but less than \$10 ; and
- (4) no more than \$1 where the bid is \$10 or more.

(b) The bid/ask differentials specified in this rule shall apply only to the two nearest term series of each class of Treasury securities options. For all longer term series the maximum bid/ask differentials are double those listed above.

### **Section 20. Allocation of Exercise Assignment Notices - Treasury Securities Options**

(a) In the case of Treasury securities options, the method of allocation of exercise notices established pursuant to Options 6B, Section 2 may provide that an exercise notice of block size shall be allocated to a customer or customers having an open short position of block size and that an exercise notice of less than block size shall not be allocated, to the extent feasible, to a customer having a short position of block size.

(b) A member organization shall allocate an exercise notice pertaining to a call option contract to a customer who has made a specific deposit of the underlying security if it is directed to do so by The Options Clearing Corporation ("OCC").

(c) For the purposes of this Rule, an exercise notice or a short position in a series of options where the total principal amount is \$1 million or more and where the underlying security is a Treasury security shall be deemed to be of "block size."

### **Section 21. Delivery and Payment - Treasury Securities Options**

Payment of the aggregate exercise price shall be accompanied by payment of accrued interest on the underlying Treasury security from but not including the last interest payment date to and including the exercise settlement date as specified in the Rules of the OCC.

### **Section 22. Margin Requirements - Treasury Securities Options**

Exchange member organizations shall comply with initial and maintenance margin requirements per Options 6C, Section 3.

### **Section 23. Furnishing of Books, Records and Other Information - Treasury Securities Options**

(a) No Lead Market Makers or Remote Options Traders in Treasury securities options shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such member or any corporate affiliate of such member pertaining to transactions by such member or any such affiliate for its own account in Treasury securities, Treasury securities futures or in Treasury securities options as may be called for under the Rules or as may be requested in the course of any investigation, any inspection or other official inquiry by the Exchange. In addition, the provisions governing identification of accounts and reports of

orders shall, in the case of Lead Market Makers or Market Makers in Treasury securities options, apply to (i) accounts for Treasury securities deliverable under the terms of the option contracts involved, Treasury securities futures, options on Treasury securities futures and Treasury securities options trading; and (ii) orders entered by the Lead Market Maker or Market Maker for the purchase or sale of Treasury securities deliverable under the terms of the options contracts involved, Treasury securities futures, options on Treasury securities futures, options on Treasury securities and opening and closing positions therein.

(b) Any corporate affiliate of a Lead Market Maker or Market Maker in Treasury securities options shall maintain and preserve such books, records or other information as may be necessary to comply with this rule.

#### **Section 24. Communication Links - Treasury Securities Options**

The Exchange will permit members to establish and maintain communication links with other members for the purpose of obtaining timely information on price movements in Treasury securities on which options are dealt in on the Exchange. Written notice of each such communication link shall be promptly filed with the Exchange. The Exchange may condition or terminate the use of any such communication link if the Exchange deems such action to be necessary or appropriate in the interest of maintaining a fair and orderly market or for the protection of investors.

#### **Section 25. Doing Business With the Public - Treasury Securities Options**

(a) Approval of the accounts of customers shall be conducted in accordance with General 9, Section 64 and, in the case of institutional options customers (i.e., customers that are not natural persons), a member organization shall seek to obtain the following information:

- (1) evidence of authority for the institution to engage in Treasury securities options transactions (corporate resolutions, trust documents, etc.);
- (2) written designation of individuals within the institution authorized to act for it in connection with Treasury securities options transactions; and
- (3) basic financial information concerning the institution.

(b) As a general matter, supervisory qualifications of a Registered Options Principal may be demonstrated only by successful completion of an examination prescribed by the Exchange (e.g. Series 4) for the purpose of demonstrating an adequate knowledge of Treasury securities options and the underlying Treasury securities. In exceptional circumstances and when good cause is shown, however, the Exchange may, upon written request by a member organization, accept as a demonstration of equivalent knowledge other evidence of a Registered Options Principal's supervisory qualifications. Advanced age, physical infirmity or experience in fields ancillary to the investment banking or securities business will not individually of themselves constitute sufficient grounds to excuse a Registered Options Principal from the general requirement that supervisory qualifications be shown by successful completion of an appropriate examination.

(c) The conduct of Treasury securities option business at a branch office of a member organization may be supervised by any Registered Options Principal of the member organization.

(d) Any sales personnel of a member organization who solicit or accept customer orders with regard to options on Treasury securities shall be deemed qualified with regard to such options after such personnel successfully completed an examination prescribed by the Exchange for the purpose of demonstrating adequate knowledge of options and the underlying Treasury securities.

## **Options 5 [Options Trade Administration] Order Protection and Locked and Crossed Markets**

### **Section 1. Order Protection; Locked and Crossed Markets**

#### **Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of Rules Options 5:

(a) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.

(b) "Bid" or "Offer" means the bid price or the offer price communicated by a member of an Eligible Exchange to any Broker/Dealer, or to any customer, at which it is willing to buy or sell, as either principal or agent, but shall not include indications of interest.

(c) "Broker/Dealer" means an individual or organization registered with the SEC in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant to rule 15a-6 under the Exchange Act.

(d) "Complex Trade" means: (i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy; or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by The Options Clearing Corporation.

(e) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.

(f) "Customer" means an individual or organization that is not a Broker/Dealer.

(g) "Eligible Exchange" means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (i) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (ii) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (iii) if the national securities exchange is not a party to the Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

(h) "Intermarket Sweep Order (ISO)" means a Limit Order for an options series that meets the following requirements:

(i) When routed to an Eligible Exchange, the order is identified as an ISO;

(ii) Simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a Limit Order to sell, or any Protected Offer, in the case of a Limit Order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.

(i) "Locked Market" means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an Eligible Options Class.

(j) "NBBO" means the national best bid and offer in an options series as calculated by an Eligible Exchange.

(k) "Non-Firm" means, with respect to Quotations, that members of a Eligible Exchange are relieved of their obligation to be firm for their Quotations pursuant to rule 602 under the Exchange Act.

(l) "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.

(m) "Participant" means an Eligible Exchange that is a party to the Plan.

(n) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.

(o) "Protected Bid" or "Protected Offer" means a Bid or Offer in an options series, respectively, that:

(i) is disseminated pursuant to the OPRA Plan; and

(ii) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.

(p) "Quotation" means a Bid or Offer.



(q) "Trade-Through" means a transaction in an option series at a price that is lower than a Protected Bid or higher than a Protected Offer.

## **Section 2. Order Protection**

(a) Avoidance of Trade-Throughs. Except as provided in paragraphs (b) and (c) below, Members shall not effect Trade-Throughs.

(b) Exceptions to Trade-Through Liability. The provisions of paragraph (a) pertaining to the satisfaction of Trade-Throughs shall not apply under the following circumstances:

(i) If an Eligible Exchange repeatedly fails to respond within one second to incoming orders attempting to access its Protected Quotations, the Exchange may bypass those Protected Quotations by:

(A) notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

(B) assessing whether the cause of the problem lies with its own Systems and, if so, taking immediate steps to resolve the problem;

Any time a determination to bypass Protected Quotations of an Eligible Exchange is made pursuant to this sub-paragraph, the Exchange must promptly document the reasons supporting such determination.

(ii) The transaction traded through a Protected Quotation being disseminated by an Eligible Exchange during a trading rotation;

(iii) The transaction that constituted the Trade-Through occurred when there was a Crossed Market;

(iv) The transaction that constitutes the Trade-Through is the execution of an order identified as an ISO;

(v) The transaction that constitutes the Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Quotation;

(vi) The Eligible Exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to execution of the Trade-Through, a Best bid or Best offer, as applicable, for the options series with a price that was equal or inferior to the price of the Trade-Through transaction;

(vii) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;

(viii) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;

(ix) The transaction that constituted the Trade-Through was the execution of an order for which, at the time of receipt of the order, a Member had guaranteed an execution at no worse than a specified price (a "stopped order"), where:

(A) the stopped order was for the account of a Customer;

(B) the Customer agreed to the specified price on an order-by-order basis; and

(C) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution;

(x) The transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop; or

(xi) The transaction that constituted the Trade-Through was the execution of an order at a price that was not based, directly or indirectly, on the quoted price of the options series at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

### **Section 3. Locked and Crossed Markets**

(a) Prohibition. Except for quotations that fall within the provisions of paragraph (b) of this Rule, Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation.

(b) Exceptions.

(i) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its Systems or equipment;

(ii) The locking or crossing quotation was displayed at a time when there is a Crossed Market or;

(iii) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

### **Section 4. Order Routing**

(a) Phlx offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("OC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH orders. After the

System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. For purposes of this rule, the Phlx's best bid or offer or "PBBO" does not include All-or-None Orders or Stop Orders which have not been triggered and the "internal PBBO" shall refer to the actual better price of an order resting on Phlx's Order Book, which is not displayed, but available for execution, excluding Allor- None Orders. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. An order exposure alert is sent if the order size is modified. Exposure notifications will be sent to participants in accordance with the routing procedures described in Options 5, Section 4(a)(iii) below except if an incoming order is joining an already established PBBO price when the ABBO is locked or crossed with the PBBO, in which case such order will join the established PBBO price and no exposure notification will be sent. For purposes of this rule Phlx's opening process is governed by Options 3, Section 8 and includes an opening after a trading halt ("Opening Process").

(i) **Priority of Routed Orders.** Orders sent to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

(ii) Entering member organizations whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.

(A) The Exchange shall route orders in options via Nasdaq Execution Services, LLC ("NES"), a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. NES serves as the Routing Facility of the Exchange (the "Routing Facility"). The sole use of the Routing Facility by the System will be to route orders in options listed and open for trading on the System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange and, in addition, where one component of a Complex Order is the underlying security, to execute and report such component otherwise than on the Exchange, pursuant to Rule Options 3, Section 14(h). The Routing Facility is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Exchange Act, as amended.

(B) Use of NES to route orders to other market centers is optional. Parties that do not desire to use NES must designate orders as not available for routing (a DNR Order, as described in subparagraph (iii)(A) below).

(C) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the Routing Facility, and any other entity, including any affiliate of the Routing Facility; or, where there is a routing broker, the Exchange, the Routing Facility and any routing broker, and any other entity, including any affiliate of the routing broker (and if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services).

(D) The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.

(E) *Market Access.* In addition to the Exchange Rules regarding routing to away trading centers, NES as defined above, has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by NES to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements of Rule 15c3- 5, the order will be rejected prior to routing and/or NES will seek to cancel any orders that have been routed.

(F) The Exchange and NES may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority.

(G) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (E) above, the routing broker(s) cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

(iii) The following order types are available:

(A) **DNR Order.** A DNR Order will never be routed outside of Phlx regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the Phlx Order Book and be displayed at a price one minimum price variation ("MPV") inferior to that away best

bid/offer. If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading. Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR's displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price; or (2) the ABBO is improved to a price which locks the DNR Order's displayed price, in which case the incoming order will execute at the DNR Order's displayed price. Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at the new ABBO only if the re-priced order locks or crosses the new ABBO. Once booked at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.

(B) **FIND Order.** A FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. FIND Orders submitted after an Opening Process initiate their own Route Timers and are routed in the order in which their Route Timers end. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day.

(1) With respect to an Opening Process, only a Public Customer and Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process. At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will be executed pursuant to Options 3, Section 8(k). Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process.

(2) With respect to an Opening Process, if during a route timer at the conclusion of an Opening Process pursuant to Options 3, Section 8(k) markets move such that the FIND Order is executable against Exchange interest, the FIND Order will immediately execute. If during a route timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the PBBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the route timer. If the ABBO worsens but remains better than the PBBO, the FIND Order will reprice and be reexposed at the new price(s) without interrupting the route timer.

(3) A FIND Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day.

(4) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is inferior to the internal PBBO will be traded at the Exchange at or better than the PBBO price. If the FIND Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, (2) be entered into the Order Book at its limit price, or (3) if locking or crossing the ABBO, be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The FIND Order will be treated as DNR for the remainder of the trading day.

(5) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO. If the FIND Order has size remaining after exhausting the PBBO, it will initiate a Route Timer, and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the FIND Order, any new interest arrives opposite the FIND Order that is marketable against the FIND Order will trade at the FIND Order price. If during the Route Timer, the ABBO markets move such that the FIND Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the FIND Order that is marketable against the FIND Order such interest will trade against the FIND Order at the ABBO price unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

(6) If, at the end of the Route Timer pursuant to subparagraph (5) above, the FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after

routing, it will (i) trade at the next PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.

(7) A FIND Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the internal PBBO will initiate a Route Timer, and expose the FIND Order at the ABBO to allow participants and other market participants an opportunity to interact with the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price that is the better of one MPV away from the ABBO or the PBBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price.

(8) If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the FIND Order, the order will route to the away market(s) whose disseminated price(s) is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.

(9) A FIND Order that is routed to an away market(s) will be marked as an Intermarket Sweep Order "ISO" and designed as an IOC order.

(C) **SRCH Order.** A SRCH Order is a Public Customer order that is routable at any time. A SRCH Order on the Order Book during an Opening Process (including a re-opening following a trading halt), whether it is received prior to an Opening Process or it is a GTC SRCH Order from a prior day, may be routed as part of an Opening Process. Orders initiate their own Route Timers and are routed in the order in which their Route Timers end.

(1) At the end of an Opening Process, any SRCH Order that is priced through the Opening Price will be cancelled, and any SRCH Order that is at or inferior to the Opening Price will be executed pursuant to Options 3, Section 8(k). If during a

Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO, the SRCH Order will book at its limit price. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer.

(2) A SRCH Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

(3) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded at the Exchange at or better than the PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the price equal to the ABBO price, and/or (2) be routed, subject to a Route Timer, to away markets if all Phlx interest at better or equal prices has been exhausted, and/or (3) be entered into the Order Book at its limit price if not locking or crossing the PBBO, including All-or-None Orders which can be satisfied, or the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

(4) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it will initiate a Route Timer and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. During the timer, the SRCH Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the SRCH Order, any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order will trade at the SRCH Order price.

(5) If, at the end of the Route Timer pursuant to subparagraph (4) above, the SRCH Order is still marketable with the ABBO, the SRCH Order will route up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If the SRCH Order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the book at its limit price if not locking or crossing



the PBBO, including All-or-None Orders which can be satisfied, or the ABBO. The System will route and execute contracts contemporaneously at the end of the Route Timer. Once on the book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

(6) A SRCH Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer, and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. During the Route Timer, the SRCH Order will be included in the PBBO at a price that is the better of one MPV inferior to the ABBO or at the PBBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order such interest will trade against the SRCH order at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

(7) If, at the end of the Route Timer pursuant to subparagraph (6) above, the ABBO is still the best price and is marketable with the SRCH Order, the order will route to the away market(s) whose disseminated price is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the Order Book at its limit price if not locking or crossing the PBBO including All-or-None Orders which can be satisfied or the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

(8) A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If, during such Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the

ABBO price, the SRCH Order will trade against such new interest at its SRCH Order price.

(9) If, at the end of the Route Timer pursuant to subparagraph (8) above, the ABBO is still the best price, the SRCH Order will route to the away market(s) up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (i) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO, including All-or-None Orders which can be satisfied, or the ABBO.

(10) A SRCH Order that is routed to an away market(s) will be marked as an ISO and designated as an IOC order.

### **Section 5. Cancellation of Orders and Error Account**

(a) The Exchange or NES may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or Systems issue occurs at the Exchange, NES, or a routing destination. The Exchange or NES shall provide notice of the cancellation to affected member organizations as soon as practicable.

(b) NES shall maintain an error account for the purpose of addressing positions that result from a technical or systems issue at NES, the Exchange, a routing destination, or a nonaffiliate third-party Routing Broker that affects one or more orders ("error positions").

(i) For purposes of this rule, an error position shall not include any position that results from an order submitted by a member organization to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.

(ii) Except as provided in subparagraph (iii) below, NES shall not (i) accept any positions in its error account from an account of a member organization, or (ii) permit any member organization to transfer any positions from the member organization's account to NES' error account.

(iii) If a technical or systems issue results in the Exchange not having valid clearing instructions for a member organization to a trade, NES may assume that member organization's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

(c) In connection with a particular technical or systems issue, NES or the Exchange shall either (i) assign all resulting error positions to member organizations in accordance with subparagraph (1) below, or (ii) have all resulting error positions liquidated in accordance with subparagraph (ii) below. Any determination to assign or liquidate error positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.

(i) NES or the Exchange shall assign all error positions resulting from a particular technical or systems issue to the member organizations affected by that technical or systems issue if NES or the Exchange:

(A) determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the member organizations affected by that technical or systems issue;

(B) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the member organizations affected by that technical or systems issue; and

(C) has not determined to cancel all orders affected by that technical or systems issue in accordance with paragraph (a) above.

(ii) If NES or the Exchange is unable to assign all error positions resulting from a particular technical or systems issue to all of the affected member organizations in accordance with subparagraph (c)(i) above, or if NES or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with paragraph (a) above, then NES shall liquidate the error positions as soon as practicable. NES shall:

(A) provide complete time and price discretion for the trading to liquidate the error positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

(B) establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and NES/the Exchange associated with the liquidation of the error positions.

(d) NES and the Exchange shall make and keep records to document all determinations to treat positions as error positions and all determinations for the assignment of error positions to member organizations or the liquidation of error positions, as well as records associated with the liquidation of error positions through the third-party broker-dealer.

## **Options 6 [Order Protection and Locked and Cross Markets]Options Trade Administration**

### **Section 1. Authorization to Give Up**

(a) General. For each transaction in which a member organization participates, the member organization may indicate, at the time of the trade, with respect to floor trading only, or through post trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). A member organization may Give Up a Restricted

OCC Number provided the member organization has written authorization as described in paragraph (b)(ii) below ("Authorized Member Organization").

(b) *Opt In.* Clearing Members may request the Exchange restrict one or more of their OCC clearing numbers ("Opt In") as described in subparagraph (i) below. If a Clearing Member Opts In, the Exchange will require written authorization from the Clearing Member permitting a member organization to Give Up a Clearing Member's Restricted OCC Number. An Opt In would remain in effect until the Clearing Member terminates the Opt In as described in subparagraph (iii) below. If a Clearing Member does not Opt In, that Clearing Member's OCC number would be subject to Give Up by any member organization.

(i) *Clearing Member Process to Opt In.* A Clearing Member may Opt In by sending a completed "Clearing Member Restriction Form" listing all Restricted OCC Numbers and Authorized Member Organizations. A Clearing Member may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Member would be required to submit the Clearing Member Restriction Form to the Exchange's Membership Department as described on the form. Once submitted, the Exchange requires ninety days before a Restricted OCC Number is effective within the System.

(ii) *Member Organization Give Up Process for Restricted OCC Numbers.* A member organization desiring to Give Up a Restricted OCC Number must become an Authorized Member Organization. The Clearing Member will be required to authorize a member organization as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the member organization is a party to, as set forth in paragraph (d) below.

(iii) *Amendments to Authorized Member Organizations or Restricted OCC Numbers.* A Clearing Member may amend its Authorized Member Organizations or Restricted OCC Numbers by submitting a new Clearing Member Restriction Form to the Exchange's Membership Department indicating the amendment as described on the form. Once a Restricted OCC Number is effective within the System pursuant to paragraph (i) above, the Exchange may permit the Clearing Member to authorize, or remove authorization for, a member organization to Give Up the Restricted OCC Number intra-day only in unusual circumstances, and on the next business day in all regular circumstances. The Exchange will promptly notify member organizations if they are no longer authorized to Give Up a Clearing Member's Restricted OCC Number. If a Clearing Member removes a Restricted OCC Number, any member organization may Give Up that OCC clearing number once the removal has become effective on or before the next business day.

(c) *System.* The System will not allow an unauthorized member organization to Give Up a Restricted OCC Number.

(i) For orders that are executed on the trading floor in open outcry using the Options Floor Based Management System ("FBMS"), the System will reject the clearing portion of the trade if an unauthorized Give Up with a Restricted OCC Number was entered. The

member organization will receive notification of the rejected clearing information, and will be required to modify the clearing information by contacting the Exchange.

(ii) For all other orders, the System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry.

(d) Letter of Guarantee. A clearing arrangement subject to a Letter of Guarantee would immediately permit the Give Up of a Restricted OCC Number by the member organization that is party to the arrangement.

(e) An intentional misuse of this Rule is impermissible, and may be treated as a violation of Options 9, Sections 1 and 5.

### **Section 2. Responsibility Of Clearing Members For Exchange Options Transactions**

Every Clearing Member shall be responsible for the clearance of the Exchange options transactions of such Clearing Member and of each member or member organization who gives up the name of such Clearing Member in an Exchange options transaction, provided the Clearing Member has authorized such member or member organization to give up its name with respect to Exchange options transactions. This Rule will apply to all Clearing Members who either (i) have Restricted OCC Numbers with Authorized Member Organizations pursuant to Options 6, Section 1, or (ii) have non-Restricted OCC Numbers.

### **Section 3. General Comparison And Clearance Rule**

(a) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(b) All Exchange options transactions shall be reported at the time of execution to the Exchange for comparison of trade information and all compared transactions shall be cleared through The Options Clearing Corporation and shall be subject to the rules of The Options Clearing Corporation.

### **Section 4. Reserved.**

### **Section 5. Transfer of Positions**

(a) A member or member organization may transfer positions off the floor in any class of options listed on its books if the transfer involves one or more of the following events:

(1) the dissolution of a joint account in which the remaining member or member organization assumes the positions of the joint account;

(2) the dissolution of a corporation or partnership in which a former nominee of that corporation or partnership assumes the positions;

(3) positions transferred as part of a member or member organization's capital contribution to a new joint account, partnership, or corporation;

(4) the donation of positions to a not-for-profit corporation;

(5) the transfer of positions to a minor under the Uniform Gifts to Minors Act;

(6) a merger or acquisition resulting in a continuity of ownership or management; or

(7) consolidation of accounts within a member or member organization.

(b) Members and member organizations must notify the Exchange in writing prior to effecting an off the floor transfer. The written notification must indicate the positions to be transferred and the reason for the transfer.

(c) Members and member organizations must transfer positions pursuant to this Rule at the same prices that appear on the books of the transferring member or member organization, and the transfer must indicate the date when the original trade was made. In the course of transferring positions, no position shall net itself against another position. Each member or member organization that is a party to a transfer of positions must make and retain records stating the nature of the transaction, the name of the counter-party, and any other information required by the Exchange.

#### **Section 6. Off-Exchange RWA Transfers**

(a) Existing positions in options listed on the Exchange of a Member or non-Member (including an affiliate of a Member) may be transferred on, from, or to the books of a Clearing Member off the Exchange if the transfer establishes a net reduction of risk-weighted assets attributable to those the Member or non-Member's options positions (an "RWA Transfer"). For purposes of this rule, the term "Person" shall be defined as an individual, partnership (general or limited), joint stock company, corporation, limited liability company, trust or unincorporated organization, or any governmental entity or agency or political subdivision thereof.

(1) RWA Transfers include, but are not limited to: (1) a transfer of options positions from Clearing Corporation member A to Clearing Corporation member B that net (offset) with positions held at Clearing Corporation member B, and thus closes all or part of those positions, and (2) a transfer of positions from a bank-affiliated Clearing Corporation member to a non-bank-affiliated Clearing Corporation member.

(2) RWA Transfers may occur on a routine, recurring basis.

(3) RWA Transfers may result in the netting of positions.

(4) No RWA Transfer may result in preferential margin or haircut treatment.

(5) No RWA Transfer may result in a change in ownership (i.e., an RWA transfer must occur between accounts of the same Person.

(6) No prior written notice to the Exchange is required for RWA Transfers.

(7) Off-exchange transfers of positions in Exchange-listed options may be subject to applicable laws, rules, and regulations, including rules of other self-regulatory organizations. Transfers of non-Exchange listed options and other financial instruments are not governed by this Rule.

### **Section 7. In-Kind Exchange of Options Positions and ETF Shares**

Positions in options listed on the Exchange may be transferred off the Exchange by a member or member organization in connection with transactions to purchase or redeem creation units of ETF shares between an authorized participant and the issuer of such ETF shares, which transfer would occur at the price(s) used to calculate the net asset value of such ETF shares. For purposes of this Rule:

(a) an “authorized participant” is an entity that has a written agreement with the issuer of ETF shares or one of its service providers, which allows the authorized participant to place orders for the purchase and redemption of creation units (i.e., specified numbers of ETF shares); and

(b) an “issuer of ETF shares” is an entity registered with the Commission as an open-ended management investment company under the Investment Company Act of 1940.

### **Section 8. Clearing Arrangements**

A member or member organization conducting an options business must be a Clearing Member or have a clearing arrangement with a Clearing Member.

### **Section 9. Stock Transfer Tax**

(a) Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall be the responsibility of the seller (writer) to whom the exercise notice is assigned in the case of a call option contract or the exercising holder in the case of a put option contract, except that (i) in the case of a call option contract where the incidents of the tax are attributable solely to the exercising holder, the member organization representing such holder or another member organization which acts on its behalf as a clearing member of The Options Clearing Corporation (“OCC”), the tax shall be the responsibility of the exercising holder, and (ii) in the case of a put option contract where the incidents of the tax are attributable solely to the seller (writer) to whom the exercise notice is assigned, the member organization representing such seller (writer) or another member organization which acts on its behalf as a clearing member of OCC, the tax shall be the responsibility of such seller (writer). Each delivery of securities subject to such tax must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax or, if required by applicable law, such tax shall be remitted by the clearing member having responsibility therefore to the clearing corporation through which it customarily pays stock transfer taxes, in accordance with the applicable rules of such clearing corporation.

**Section 10. Filing of Trade Information**

At the time of execution, each member organization which is a clearing member of The Options Clearing Corporation shall be responsible for supplying to the Exchange trade information in a form prescribed by the Exchange, covering each Exchange options transaction for which such clearing member is responsible. The trade information shall show for each transaction (i) the identity of the purchasing clearing member and the writing clearing member given up at the time of execution, (ii) the underlying stock, Exchange-Traded Fund Share or foreign currency, as the case may be, (iii) the exercise price, (iv) the expiration month, (v) the number of option contracts, (vi) the premium per share of the underlying stock or the premium per unit of the underlying foreign currency, (vii) whether a purchase or a writing transaction, (viii) except for a transaction in a Lead Market Maker's account, whether an opening or closing, (ix) the identity of the account of the clearing member in which the transaction was effected, (x) Reserved, (xi) whether a put or call, and (xii) such other information as may be required by the Exchange. Each member or member organization which is a clearing member of The Options Clearing Corporation shall be responsible to the Exchange in respect of all trade information filed with the Exchange on such form prescribed by the Exchange.

**Section 11. Verification Of Trades And Reconciliation Of Uncompared Trades**

A Clearing Member shall be obligated to compare all trades made through or on behalf of such member as soon as possible after such trades are made or after receiving notification thereof, reconcile all uncompared trades and advisory trades, and report all reconciliations, corrections and adjustments to the Exchange in accordance with such procedures as may be established by the Exchange from time to time. Such reconciliation report shall be filed with the Exchange prior to such cut-off hour as the Exchange may prescribe and shall be binding on the Clearing Member on whose behalf it is filed. The Exchange will consider all trades as executed and compared as of such cut-off hour.

**Section 12. Reporting Of Compared Trades To Options Clearing Corporation**

On each business day at or prior to such time as may be prescribed by The Options Clearing Corporation, the Exchange shall furnish The Options Clearing Corporation a report of each clearing member's compared trades based on the comparison service performed by the Exchange on that day. Only trades which have been compared shall be furnished by the Exchange to The Options Clearing Corporation, and the Exchange shall assume no responsibility with respect to any uncompared trade nor for any delays or errors in the reporting of trades for comparison.

**Section 13. Maintaining Office And Filing Signatures**

Every member organization which is a clearing member of The Options Clearing Corporation shall maintain an office for the purpose of comparing Exchange options transactions. Any such member organization may use for the purpose of these Rules the office of another member organization which is a clearing member of The Options Clearing Corporation. There shall be present at such office, between such hours as the Exchange shall from time to time fix, on every business day a representative of the member organization authorized to sign in the name of the member organization all instruments and transact all business requisite in connection with the comparison of Exchange options transactions.



## **Options 6A Closing Transactions**

### **Section 1. Options Contracts Of Suspended Members**

When announcement is made of the suspension of a member or member organization, other than a clearing member, pursuant to the provisions of General 2, Section 2, all open short positions of the suspended member or member organization in option contracts and all open positions resulting from exercise of option contracts, other than positions that are secured in full by a specific deposit in accordance with the rules of The Options Clearing Corporation ("OCC"), shall be closed without unnecessary delay by all member organizations carrying such positions for the account of the suspended member or member organization; provided, however, that upon any such suspension the Board may, in its discretion, suspend the mandatory close-out provisions of this Rule and may, in its discretion, reinstate such provisions at such time as it may determine. No temporary suspension of the mandatory close-out provisions of this Rule shall relieve the suspended member or member organization of his or its obligations or for any damages incurred by member organizations carrying positions for the account of such suspended member or member organization. Should an open short position or an open position resulting from an exercise of an option contract not be closed when required to be closed by this Rule, the price for the purpose of determining shall be fixed by the price current at the time when such position should have been closed under this Rule. When a clearing member is suspended, the positions of such clearing member shall be closed out in accordance with the rules of OCC.

### **Section 2. Failure To Pay Premium**

(a) Whenever The Options Clearing Corporation ("OCC") shall reject an Exchange options transaction because of the failure of the clearing member acting on behalf of the purchaser to pay the premium due thereon as required by the Rules of OCC, the member or member organization acting as or on behalf of the seller (writer) shall have the right either to cancel the transaction by giving notice thereof to the defaulting clearing member or to enter into either a new opening writing transaction or closing sale transaction, as the case may be, in respect of the same option contract that was the subject of the rejected Exchange options transaction, charging any loss resulting therefrom (including any commissions paid or payable in connection with such new transaction) to the defaulting clearing member. Such action shall be taken as soon as possible and in any event not later than the close of trading on the day the Exchange options transaction was rejected by OCC, unless the Exchange shall extend such time.

(b) In the event the rejected transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange options transaction can be effected to establish the amount of any loss the member or member organization acting as or on behalf of the seller shall have a claim against the defaulting clearing member for the amount of the premium due thereon.

## **Options 6B Exercises and Deliveries**

### **Section 1. Exercise Of Equity Option Contracts**

(a) *Exercise Notices.* An outstanding option contract may be exercised by the tender to The Options Clearing Corporation ("OCC") of an exercise notice made during the periods, and using the procedures, specified in OCC rules. An exercise notice may be tendered to OCC only by the

clearing member in whose OCC account the option contract is carried. Option exercises are also subject to restrictions that are established by or may be imposed by the Exchange in Options 9, Sections 15, 17 and 18, and in this Rule. Members and member organizations may establish fixed procedures as to the latest time they will accept exercise notices from their customers.

(b) *Exercise-by-Exception Procedure for Expiring Options.* Special procedures apply to the exercise of equity options on the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the last business day before their expiration ("expiring options"). Unless waived by OCC, expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under OCC Rule 805. This Rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to OCC rules, the following Exchange requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either:

(i) take no action and allow exercise determinations to be made in accordance with OCC's rule 805 Ex-by-Ex procedure where applicable; or

(ii) submit a Contrary Exercise Advice ("CEA") or Advice Cancel to the Exchange by the deadline specified in paragraph (d) below.

(c) *Exercise Cut-Off Time.* Option holders have until 5:30 p.m. (EST) on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day immediately prior to the expiration date, to make a final decision to exercise or not exercise an expiring option. Members may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. (EST).

(d) *Submission of Contrary Exercise Advices ("CEAs").* A CEA is a communication either to not exercise an option that would be automatically exercised pursuant to The Options Clearing Corporation's ("OCC") Ex-by-Ex procedure, or to exercise an option that would not be automatically exercised pursuant to OCC's Ex-by-Ex procedure. A CEA may be submitted by a member or member organization either by using the Exchange's CEA Form, OCC's clearing system (ENCORE), or a CEA form of any other national securities exchange of which they are a member and where the option is listed, or via such other method as the Exchange may prescribe. A CEA may be canceled or resubmitted at any time up to the exercise cut-off time specified below.

For customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange.

For non-customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange if such member or member organization employs an electronic submission procedure with an electronic time stamp (with fixed procedures to ensure security of the time stamp) to indicate the time of the submission of exercise instructions by option holders. Members and member organizations are required to manually submit a CEA by 5:30 p.m. (EST) for non-customer accounts if such members and/or member organizations do not employ an

electronic submission procedure with electronic time stamp for the submission of exercise instructions by option holders.

(e) Waiver of Ex-by-Ex Procedure. If OCC has waived the Ex-by-Ex procedure for an options class, members, and member organizations must either:

(i) submit to the Exchange, a CEA, in a manner specified by the Exchange, within the time limits specified in paragraph (d) above if the holder intends to exercise the option, or

(ii) take no action and allow the option to expire without being exercised.

The applicable underlying security price in such instances will be as described in OCC rule 805(j). In cases where the Ex-by-Ex procedure has been waived, OCC rules require that members and member organizations wishing to exercise such options must submit an affirmative Exercise Notice to OCC, whether or not a CEA has been filed with the Exchange.

(f) Indicating Final Exercise Decisions. An Exchange member organization that has accepted the responsibility to indicate final exercise decisions on behalf of another member or non-member organization shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such member organization may establish a processing cut-off time prior to the Exchange's exercise cut-off time at which it no longer will accept final exercise decisions in expiring options from options holders for whom it indicates final exercise decisions. Each member or member organization that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are timely indicated to such broker-dealer.

(g) Exceptions to Submitting a CEA; Recordkeeping. Members and member organizations may receive and submit final exercise decisions after the exercise cut-off time (but prior to expiration) without having submitted a CEA under the following circumstances:

(i) in order to remedy mistakes made in good faith;

(ii) to take appropriate action as the result of a failure to reconcile unmatched Exchange option transactions; or

(iii) where exceptional circumstances have restricted an option holder's ability to inform a member organization of a decision regarding exercise, or a member organization's ability to receive such decision by the cut-off time.

The burden of establishing any of the above exceptions for a proprietary or customer account of a member or member organization rests solely on the member or member organization seeking to rely on such exceptions.

In the event a member or member organization does not timely submit a CEA in accordance with the requirements of this Rule or does not timely submit a CEA for a final exercise decision

pursuant to an exception in the paragraph above, the responsible member or member organization shall set forth in a written memorandum the surrounding circumstances and shall file a copy of the memorandum with the Exchange's Regulatory staff no later than 12:00 noon (EST) on the business day following the expiration. Such memorandum must additionally include the time when such final exercise decision was made or, in the case of a customer, was received, and shall be subject to the recordkeeping requirements of SEC Rules 17a-3(a)(6) and 17a-4(b).

(h) *Modifying the Time for Close of Trading in Options.* In the event the Exchange provides advance notice on or before 5:30 p.m. (EST) on the business day immediately prior to the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to the last business day before the expiration date indicating that a modified time for the close of trading in equity options on such business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. (EST) deadline found in paragraph (c). However, members and member organizations have until 7:30 (EST) to deliver a CEA or Advice Cancel to the Exchange for: (i) customer accounts; and, (ii) non-customer accounts where such member firm employs an electronic submission procedure with an electronic time stamp (with fixed procedures to ensure security of the time stamp) to indicate the time of receipt of exercise instructions.

For non-customer accounts, members and member organizations that do not employ an electronic submission procedure with a time stamp for the submission of exercise instructions are required to deliver a CEA or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. (EST) deadline found in paragraph (d).

(i) *Extending or Reducing the Cut-Off Time for Exercise Decisions.*

(i) The Exchange may establish extended cut-off times for a decision to exercise or not exercise an expiring option and for the submission of CEAs on a case-by-case basis due to an unusual circumstance.

(ii) The Exchange, with at least one (1) business day prior advance notice, by 12:00 noon (EST) on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of CEAs on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a CEA be before the close of trading.

(j) For purposes of this Rule, the terms "customer account" and "non-customer account" have the same meaning as in OCC by-laws.

(k) Reporting final exercise decisions contemplated by this Rule does not serve to substitute as the effective "exercise notice" to OCC for the exercise or non-exercise of expiring options.

(l) In the event of "unusual circumstances," subparagraph (h)(i) provides that the Exchange may extend the cut-off times for exercise instructions and the submission of a CEA beyond the normal time frames specified in paragraph (c). For purposes of subparagraph (h)(i), an "unusual circumstance" includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or Systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal System malfunctions affecting the ability to disseminate or update market quotes and/or deliver orders; or other similar occurrences. subparagraph (h)(ii) provides that the Exchange may also reduce such cut-off times for "unusual circumstances." For purposes of subparagraph (h)(ii), an "unusual circumstance" includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day the option contract expires, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to expiration.

(m) Each member organization shall establish fixed procedures to insure secure time stamps in connection with their electronic Systems employed for the recording of submissions to exercise or not exercise expiring options.

(n) It is contemplated by this Rule that effecting an exercise decision in an expiring option on the basis of material information obtained after the exercise cut-off time is activity inconsistent with just and equitable principles of trade.

(o) The exercise cut-off requirements contained in this Rule do not apply to any foreign currency or index option products listed on the Exchange.

(p) Each Member Organization shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda will be subject to the requirements of SEC Rule 17a-4(b).

## **Section 2. Allocation of Exercise Notices**

(a) Each member organization shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in option contracts in such member organization's customers' accounts. Such allocation shall be made on a "first-in, first-out" or automated random selection basis that has been approved by the Exchange or on a manual random selection basis that has been specified by the Exchange. Each member organization shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' accounts, explaining its manner of operation and the consequences of that system. Allocation procedures for foreign currency options with customized dates shall conform to the requirements set forth in Options 8, Section 34(c).

(b) Each member organization shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no member organization shall change its method of allocation unless the change has been reported to and approved by the Exchange. The

requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another Exchange having comparable standards pertaining to methods of allocation.

(c) Each member organization shall preserve for a three-year period sufficient workpapers and other documentary materials relating to the allocation of exercise assignment notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

### **Section 3. Delivery and Payment**

Delivery of the shares of underlying stock or Exchange-Traded Fund Shares (in the case of an option on a stock or Exchange-Traded Fund Share) upon the exercise of an option contract, and payment of the aggregate exercise price in respect thereof, shall be effected in accordance with the rules of The Options Clearing Corporation ("OCC"). As promptly as practicable after the exercise of a stock or Exchange-Traded Fund Share option contract by a customer, the member organization shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract or to deposit the underlying stock or Exchange-Traded Fund Shares in the case of a put option contract or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board. As promptly as practicable after the assignment to a customer of a stock or Exchange-Traded Fund Share option exercise notice, the member organization shall require the customer to deposit the underlying stock or Exchange-Traded Fund Share in the case of a call option contract if the underlying stock or Exchange-Traded Fund Share is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put option contract, or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board.

IN accordance with the applicable rules of OCC, upon exercise of an in-the-money U.S. dollar-settled foreign currency option structured as a call, the holder receives, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the U.S. dollar-settled foreign currency options contract multiplied by the number of units of currency covered by the contract. For a U.S. dollar-settled foreign currency option structured as a put, the holder receives U.S. dollars representing the excess of the exercise price over the closing settlement value of the U.S. dollar-settled foreign currency option contract multiplied by the number of units of foreign currency covered by the contract.

### **Options 6C Margins**

#### **Section 1. Reserved**

#### **Section 2. Reserved**

#### **Section 3. Proper and Adequate Margin**

(a) No member organization shall effect a transaction or accept or carry an account for a customer, whether a member or non-member of the Exchange, without proper and adequate

margin in accordance with the Margin Rules set forth in Options 6C, Sections 3 and 7 and Regulation T.

(b) A member organization must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or New York Stock Exchange ("NYSE") as the same may be in effect and amended from time to time.

(1) Such election shall be promptly made in writing by a notice filed with the Exchange.

(2) Upon the filing of such election, a member organization shall be bound to comply with the margin rules of CBOE or NYSE, as applicable, as though said rules were part of the Exchange's Margin Rules.

(A) Upon the filing of such election, a member organization engaged in trading Treasury securities options on the Exchange shall, in respect of such trading, comply with the NYSE initial and maintenance margin rules or CBOE margin rules in Chapter XII (not CBOE Government security option margin rules in Chapter XXI). Provided, however, that short Treasury security options traded on the Exchange shall follow the margin percentage requirements for short equity options in NYSE margin rules or the margin percentage requirements for short equity options in CBOE Chapter XII; and provided that portfolio margin shall not be applicable to Treasury securities options.

(c) The margin requirement for any U.S. dollar-settled foreign currency put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be calculated as follows:

(1) The Exchange will review the five day price movements comparing the base currency against the underlying currency over the most recent three-year period for each foreign currency pair underlying options traded on the Exchange and will set margin levels which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(2) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.

(3) If the results of subsequent reviews show that the confidence level for any currency pair has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency pair will be monitored monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a 98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

(4) The Exchange will also review each currency pair for large price movements outside the margin level ("extreme outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency pair will be increased to a confidence level of 99%.

(d) The margin requirement for any Alpha Index put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be the same as the higher of the margin requirements applicable to options on the two individual components of the index.

#### **Section 4. Reserved**

#### **Section 5. Reserved**

#### **Section 6. Reserved**

#### **Section 7. Prohibition on Free-Riding in Cash Accounts**

(a) No member organization shall permit a customer (other than a broker/dealer or a "designated account") to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No member organization shall permit a customer to make a practice of selling securities with them in a cash account which are to be received against payment from another broker/dealer where such securities were purchased and are not yet paid for. A member organization transferring an account which is subject to a Regulation T 90-day freeze to another member organization shall inform the receiving member organization of such 90-day freeze.

(b) The provisions of Section 220.8(c) of Regulation T of the Board of Governors of the Federal Reserve System dictate the prohibitions and exceptions against customers' free riding. Member organizations may apply to the Exchange in writing for waiver of a 90-day freeze not exempted by Regulation T.

#### **Options 6D Net Capital Requirements**

##### **Section 1. Financial Responsibility and Reporting**

(a) *Financial Responsibility Standards.*—Each member organization effecting securities transactions shall comply with the capital requirements set forth below:

(i) each member organization subject to SEC Rule 15c3-1 shall at all times comply with said rule and the notification provisions of SEC Rule 17a-11;

(ii) each member organization exempt from SEC Rule 15c3-1 shall, at the time of its admission to the Exchange, have a minimum of \$25,000 in net liquid assets;

(iii) each member organization or foreign currency options participant organization exempt from SEC Rule 15c3-1 and whose principal business is as a registered options



trader on the Exchange, shall, subject to subparagraph (iv) below, at all times maintain a minimum of \$25,000 in net liquid assets;

(iv) each member organization referred to in paragraph (iii) above shall at all times maintain positive net liquid assets and, in its clearing account(s), positive equity, provided that said organization has filed with the Exchange a letter of guarantee issued on its behalf by a clearing member organization of this Exchange which is also a clearing member of The Options Clearing Corporation. In said letter the clearing member organization guarantees the financial responsibilities of said organization for all transactions and balances carried and cleared in the clearing account(s). Such letter of guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange by the clearing member organization. A revocation shall in no way relieve a clearing member organization of responsibility for transactions guaranteed prior to the effective date of such revocation.

(v) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC Rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.

(vi) Each member organization which maintains a joint back office ("JBO" arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System shall comply with the requirements below:

(A) Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Exchange Act and subject to SEC Rule 15c3-1(b)(i).

(B) Each JBO participant must meet and maintain a minimum account equity requirements of \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T.

(C) Each JBO participant must meet and maintain the ownership standards.

(D) Each JBO participant must employ or have access to a qualified Series 27 principal.

(vii) Every clearing member organization carrying JBO accounts in accordance with Regulation T, shall comply with Section 220.7 of the Federal Reserve Board.

(A) Each member organization that carries JBO accounts shall not allow its (i) tentative net to fall below \$25 million or in the alternative its (ii) net capital \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of the gross haircuts calculated for all options

market makers and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (ii) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

(B) Each member organization which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each JBO participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities are sufficient to eliminate the deficiency are not received within five (5) business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T.

(C) Each member organization which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3-1 for the positions maintained in such account.

(D) Each member organization which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.

(E) Each member organization which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing of its intention to carry such accounts.

If at any time a clearing member operating pursuant to paragraphs (vii)(A)(i) or (ii) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing member shall immediately notify the Exchange of such deficiency by telegraphic or facsimile notice; and be subject to the prohibition against withdrawal of equity capital set forth in SEC Rule 15c3-1(e) and to the prohibitions against reduction, prepayment and repayment of subordination agreements set forth in paragraph (b)(1) of the SEC Rule 15c3-1d, as if such broker or dealers' net capital were below the minimum standards specified by each of these paragraphs.

(F) Each member organization which maintains JBO accounts must develop risk analysis standards which are acceptable to the Exchange.

(viii) a member organization shall promptly notify the Exchange if it ceases to be in compliance with the net capital requirements of SEC Rule 15c3-1 and/or the provisions of paragraphs (a)(iii) and (a)(iv) above.

(b) Computation of Net Liquid Assets.—Each member organization subject to this Rule shall compute net liquid assets in accordance with the following.

(i) Net Liquid Assets shall mean Total Assets less Total Liabilities less Non-Allowable Assets plus Exchange-approved Subordinated Liabilities less 2/3 of the value, as defined below. Unless provided otherwise in this rule, assets, liabilities and net worth shall be computed in accordance with generally accepted accounting principles.

(ii) Assets and Non-Allowable Assets shall have the same meaning as set forth in SEC Rule 15c3-1 except as stated in paragraph (b)(i) above;

(iii) Exchange-approved Subordinated Liabilities shall have the same meaning as those liabilities subject to Appendix D to SEC Rule 15c3-1 and shall be executed and maintained in the same manner as defined in said Rule and SEC Rule 17a-11.

(c) Reporting and Recordkeeping.—Member organizations shall make the following reports of their compliance with their pertinent financial responsibility rules:

(i) Organizations designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and subject to SEC Rules 15c3-1 and 17a-5 shall file those periodic and annual reports and annual certified audited statements as prescribed by SEC Rule 17a-5.

(ii) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and acting as a Market Maker and/or option Lead Market Maker shall, on forms prescribed by the Exchange, file the following reports with the Exchange or its designee:

(A) As of the last business day of each month, a statement of assets, liabilities, net worth and a computation of net capital;

(B) As of the last business day of each calendar quarter, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said calendar quarter and, where applicable, changes in retained earnings, partnership capital and subordinated liabilities; and

(C) As of the last business day of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said year and where applicable, changes in retained earnings, partnership capital and subordinated liabilities and any other supplemental schedule(s) as may be required by the SEC.

(iii) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1, exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with subparagraph (a)(iii), shall, on forms prescribed by the Exchange, file those reports prescribed in subparagraph 1(c)(ii)(A), (B), and (C).

(iv) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1, exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with Options, Section 1(a)(iv), shall file only those reports prescribed in subparagraph (c)(ii)(C) as well as those reports prescribed in subparagraph (c)(iv)(A).

(A) As of the last business day of the first half of each calendar year, in addition to the information required by subparagraph (c)(ii)(A), a statement of profit or loss for said first half, and where applicable, changes in retained earnings, partnership capital and subordinated liabilities.

(v) Each organization designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and acting as a broker on the Exchange shall, on forms prescribed by the Exchange, file those reports described in Options 6D, Section 1(c)(ii)(A), (B), and (C).

(vi) Each member organization whose principal business is acting as a broker on PSX, who is not self-clearing and for which the Exchange is the DEA must establish and maintain an account with a clearing firm for the sole purposes of carrying positions resulting from errors made in the course of its brokerage business. Such an account for options transactions must be maintained with an entity which is also a clearing member of The Options Clearing Corporation. A broker on PSX, prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the broker on PSX with respect to all orders entrusted on PSX with such broker on PSX as well as all transactions and balances carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing member organization of its intent to no longer clear or carry transactions for such broker on PSX. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

(d) The Exchange may at any time or from time to time with respect to a particular member organization, prescribe more frequent filing of reports or greater net liquid asset requirements than those prescribed under this Rule, including more stringent treatment of items in computing net liquid assets.

(e) *Due Dates; Fees for Late Filing.*—Each financial report required by Rule 703(c) shall be filed with the Exchange within seventeen business days after the conclusion of the reporting period. Reports shall be deemed to have been filed on the date which they have been postmarked; if such reports have not been postmarked, they shall be deemed to have been filed when received by the Exchange. A request for an extension of time to file any such report must be received by the Exchange no later than the business day before the due date for the required report. Unless such an extension has been granted, a member organization shall pay a late fee as set forth below for each week or any part thereof that the report has not been filed.

(i) \$100 per week for the first late filing in a twelve-month period;

(ii) \$300 per week for the second late filing during a twelve-month period; and

(iii) \$1,000 per week for the third late filing, and subsequent late filings, during a twelve-month period.

The twelve-month period is calculated based on report due dates. Delinquencies will be calculated based on a running twelve-month period.

(f) Filings with The Exchange.—All letters, reports, extension requests and other items required to be filed with the Exchange by any provision of this Rule shall be filed with the Exchange or its designee.

#### Supplementary Material to Options 6D, Section 1

.01 JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Options 2, Section 3 or under the comparable rules of another self-regulatory organization.

.02 Organizations designated to the Exchange for financial responsibility pursuant to SEC Rule 17d-1 and subject to SEC Rules 15c3-1 and 17a-5 or exempt from SEC Rule 15c3-1 and maintaining net liquid assets in accordance with Options 6D, Section 1(a), must file electronically with the Exchange or its designee, utilizing such method as required by the Exchange, FOCUS Reports and filings required by SEC Rule 17a-5(a) and (b) and Options 6D, Section 1(c), (d) and (f). Exchange members are still obligated to submit such filings to the SEC as specified in the Exchange Act, as amended, and the rules promulgated under the Act.

#### **Section 2. Reserved**

#### **Section 3. Reserved**

#### **Section 4. Reserved**

#### **Options 6E Records, Reports and Audits**

##### **Section 1. Maintenance, Retention and Furnishing of Books, Records and Other Information**

(a) Every member and member organization shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act and the rules and regulations thereunder. No member or member organization shall refuse to make available to the Exchange such books, records or other information as may be called for under the rules or as may be requested in connection with an investigation by the Exchange.

(b) Without limiting the general provisions of this Rule, such Rule requires Market Makers who receive electronically-delivered orders directed to them, Lead Market Makers and Lead Market Maker Units who request that payments be made to order flow providers as part of the Exchange's payment for order flow program, to make, keep current and preserve all books and records relating to payment for order flow arrangements, including but not limited to all records pertaining to the identity of the order flow providers, the rates, and the basis for the amounts they

have directed the Exchange to pay to order flow providers (whether on a per contract or flat fee basis). Such books and records shall be made available as may be requested by the Exchange.

## **Section 2. Reporting Of Options Positions**

(a) Each member and member organization shall file with the Exchange a report with respect to each account in which the member or member organization has an interest, each account of a partner, officer, director, or employee of such member organization, and each customer account, acting alone, or in concert with others, which has established an aggregate position of 200 or more option contracts (whether long or short) of a put class and call class on the same side of the market covering the same underlying security, in the case of options on a stock or Exchange-Traded Fund Share, or an aggregate position of 2,500 or more option contracts (whether long or short) of a put class and call class on the same side of the market covering the same underlying foreign currency in the case of options on a foreign currency, or an aggregate position of 100,000 or more warrants (whether long or short) covering the same underlying security in the case of warrants on stock indexes, currency, or currency indexes, combining for purposes of this Rule (i) long positions in put options with short positions in call options, and (ii) short positions in put options with long positions in call options. The report shall be in such form as may be prescribed by the Exchange and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred. Whenever a report shall be required to be filed with respect to an account pursuant to this paragraph, the member or member organization filing the same shall file with the Exchange such additional periodic reports with respect to such account as the Exchange may from time to time prescribe.

(b) In addition to the reporting requirement described in paragraph (a) of this Rule, each member (other than an Exchange market maker) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such positions are hedged, and provide documentation as to how such contracts are hedged, in a manner and form prescribed by the Exchange. For the purposes of this Rule, the term market maker is a Registered Option Trader or Lead Market Maker. For the Nasdaq-100 Index Tracking Stock ("QQQ")® options, once the 10,000 contract reporting threshold of this paragraph is met, the Exchange will require members (other than an Exchange market maker) to report each increase of 2,500 contracts on the same side of the market for the account of a customer and each increase of 5,000 contracts on the same side of the market for proprietary accounts. In addition, whenever the Exchange determines, based on a report to the Regulatory staff or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under-hedged Non-FLEX equity option position in excess of 10,000 contracts on the same of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Options 6C, Section 3. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) In addition to the reports required by paragraph (a) of this Rule, each member and member organization shall report promptly to the Exchange any instance in which such member or member organization has reason to believe that a person, acting alone or in concert with others,

has exceeded or is attempting to exceed the position limits prescribed pursuant to Options 9, Section 13 or the exercise limits prescribed pursuant to Options 9, Section 15.

(d) Upon the request of the Exchange, a member and member organization shall file with the Exchange a report reflecting the aggregate uncovered short positions in each series of options dealt in on the Exchange in (i) each account in which the member or member organization has an interest, (ii) all accounts of partners, principal executive officers and directors of such member organization and (iii) all accounts of customers. Such report shall be made by the second business day following the date the request is made.

#### Supplementary Material to Options 6E, Section 2

.01 A clearing member organization which clears Exchange options transactions for another member organization in a single omnibus account, need not file the reports specified in this Rule with respect to positions in such account provided the member organization whose Exchange options transactions are cleared through such omnibus account files the reports required by this Rule. However, a clearing member organization which clears Exchange option transactions for a non-member in a single omnibus account must file the reports required by this Rule.

.02 A member organization shall not be required to file the reports specified in this Rule with respect to positions in the accounts of Lead Market Makers or Lead Market Maker units and registered options traders cleared by such member organization provided such positions are reported pursuant to Options 2, Section 7.

.03 All reports required by this Rule shall be filed with the Exchange, on forms prescribed by the Exchange.

### **Section 3. Reserved**

### **Section 4. Independent Audit**

(a) Each member organization doing any business with the public shall at least once each calendar year cause to be made an audit of its affairs, conducted in accordance with applicable audit requirements of the Securities and Exchange Commission and such other requirements as deemed appropriate by the Exchange, by independent public accountants and shall have such accountants prepare an answer to the financial questionnaire of the Exchange based upon such audit.

(b) Pursuant to Rule 17a-5(d), promulgated under the Exchange Act, all broker-dealers are required to file annually audited financial statements ("Annual Audits") with their Designated Examining Authority and the SEC, no more than 60 days after the date of the year end financial statements. A member organization unable to meet the filing deadline for its Annual Audit as a result of exceptional circumstances may request an extension of time, in writing, prior to the filing due date. Annual Audits not received by the Exchange by the due date, or revised due date if an extension has been granted, will be subject to a late fee as set forth below for each week or

any part thereof that the Annual Audit has not been filed, as calculated based on the due date or revised due date for filing the Annual Audit. (Implemented on a running three-year basis.)

(i) \$100 per week for the first late filing in a three-year period.

(ii) \$300 per week for the second late filing in a three-year period.

(iii) \$1,000 per week for the third late filing in a three-year period.

**••• Supplementary Material: -----**

The Exchange has adopted the following directive:

**Annual audit**

While the new rule eliminates the requirement for a surprise audit it is still required that an audit be conducted. The annual audit may be done on a surprise basis but the rule also allows for the audit to be conducted on a calendar year basis, fiscal year basis or any other regular basis approved by the Exchange.

The agreement between the member organization and the accountant, required to be filed with the Membership Department under directive of the Exchange, shall read substantially as follows, although additional provisions, not inconsistent with the following, may also be included in the agreement:

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**••• Supplementary Material: -----**

SAMPLE COPY

**(Not for filing)**

**To be typed on Accountants Letterhead**

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(Name of Member Organization)

Gentlemen:

You have selected us (me) to make an audit of your affairs and to prepare an answer to the financial questionnaire required to be filed with Nasdaq PHLX LLC based upon such audit.



We (I) Agree

- (1) To make an audit of the affairs of your firm in accordance with the audit regulations of the Securities and Exchange Commission and Nasdaq PHLX LLC. Such audit shall be conducted as of , 20. In the event the audit is to be conducted on a "surprise" basis, do not fill in date called for above and state that "the audit will be made without prior notice to your firm."
- (2) to notify promptly the Membership Department that the audit has been commenced;
- (3) to prepare an answer to the financial questionnaire required to be filed with the Membership Department, based upon such audit;
- (4) to submit to the Membership Department a copy of such answer accompanied by an attestation, in the prescribed form, signed by the general partners (officers) of the member firm (corporation) and ourselves (myself);
- (5) to submit to the Membership Department a copy of our (my) report in accordance with the special instructions which appear in the financial questionnaire.

Yours very truly,

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Signature of Independent

Public Accountant

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**Section 5. Automated Submission of Trading Data**

A member or member organization shall submit such of the following trade data elements specified below in such automated format as may be prescribed by the Exchange from time to time, in regard to such transaction or transactions as may be subject of a particular request for information made by the Exchange:

(a) If the transaction was a proprietary transaction effected or caused to be effected by the member or member organization for any account in which such member or member organization, or any member, allied member, approved person, partner, officer, director, or employee thereof, is directly or indirectly interested, such member or member organization shall submit or cause to be submitted the following information:

- (1) Clearing house number, or alpha symbol as used by the member or the member organization submitting the data;

(2) Clearing house number(s), or alpha symbol(s) as may be used from time to time, of the member(s) or member organization(s) on the opposite side of the transaction;

(3) Identifying symbol assigned to the security;

(4) Date transaction was executed;

(5) Number of shares, or quantity of bonds or options contracts for each specific transaction and whether each transaction was a purchase, sale, short sale, and if an options contract whether open long or short or close long or short;

(6) Transaction price;

(7) Account number; and

(8) Market center where transaction was executed.

(b) If the transaction was effected or caused to be effected by the member or member organization for any customer account, such member organization shall submit or cause to be submitted the following information:

(1) Data elements (1) through (8) as contained in paragraph (a) above; and

(2) Customer name, address(es), branch office number, registered representative number, whether order was solicited or unsolicited, date account opened and employer name and the tax identification number(s).

(3) If transaction was effected from a member broker-dealer customer, whether the broker-dealer was acting as principal or agent on the transaction or transactions that are the subject of the Exchange's request.

(c) In addition to the above trade data elements, a member or member organization shall submit such other information in such automated format as may be prescribed by the Exchange, as may from time to time be required.

(d) The Exchange may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (a) and (b) above be submitted to the Exchange in an automated format.

## **Section 6. Reserved**

## **Section 7. Regulatory Services Agreements**

The Board may authorize any officer, on behalf of the Exchange, subject to the approval of the Board, to enter into one or more agreements with another self-regulatory organization to provide regulatory services to the Exchange to assist the Exchange in discharging its obligations under Section 6 and Section 19(g) of the Exchange Act. Any action taken by another self-regulatory

organization, or its employees or authorized agents, acting on behalf of the Exchange pursuant to a regulatory services agreement shall be deemed to be an action taken by the Exchange; provided, however, that nothing in this provision shall affect the oversight of such other self-regulatory organization by the Securities and Exchange Commission. Notwithstanding the fact that the Exchange may enter into one or more regulatory services agreements, the Exchange shall retain ultimate legal responsibility for, and control of, its self-regulatory responsibilities, and any such regulatory services agreement shall so provide.

## **Section 8. Reserved**

## **Section 9. Reserved**

### **Options 7 Pricing Schedule**

#### **Section 1 General Provisions**

\* \* \* \* \*

For purposes of assessing options fees and paying rebates, the following references should serve as guidance.

The term "**Customer**" applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation ("OCC") which is not for the account of a broker or dealer or for the account of a "Professional" (as that term is defined in Rule 1000(b)(14)(43)).

The term "**[Specialist]Lead Market Maker**" applies to transactions for the account of a [Specialist]Lead Market Maker (as defined in [Exchange Rule 1020]Options 2, Section 12(a)). [An options Specialist]A Lead Market Maker is an Exchange member who is registered as an options [specialist]Lead Market Maker pursuant to Rule [1020]Options 2, Section 12(a). An options [specialist]Lead Market Maker includes a Remote [Specialist]Lead Market Maker which is defined as an options [specialist]Lead Market Maker in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to [Rule 501]Options 2, Section 11.

The term "**[ROT]Market Maker, SQT and RSQT**" applies to transactions for the accounts of [Registered Option Traders ("ROTs")]Market Makers, Streaming Quote Traders ("SQTs"), and Remote Streaming Quote Traders ("RSQTs"). For purposes of the Pricing Schedule, the term "**Market Maker**" will be utilized to describe fees and rebates applicable to [ROTs]Market Makers, SQTs and RSQTs. RSQTs may also be referred to as Remote Market Markers ("RMMs").

The term "**[Registered Option Trader]Market Maker**" is defined in [Exchange Rule 1014(b)]Options 1, Section 1(b)(28) as a [regular] member of the Exchange [located on the trading floor who has received permission from the Exchange to trade in options for his own account]who is registered as an options Market Maker pursuant to Options 2, Section 12(a). A

[ROT]Market Maker includes SQTs and RSQTs as well as on and [off-floor ROTS]Floor Market Makers.

The term "**Streaming Quote Trader**" is defined in [Exchange Rule 1014(b)(ii)(A)]Options 1, Section 1(b)(54) as [an ROT]a Market Maker who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned.

The term "**Remote Streaming Quote Trader**" is defined in [Exchange Rule in 1014(b)(ii)(B)]Options 1, Section 1(b)(49) as [an ROT]a Market Maker that is a member affiliated with an RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A Remote Streaming Quote Trader Organization or "RSQTO," which may also be referred to as a Remote Market Making Organization ("RMO"), is a member organization in good standing that satisfies the RSQTO readiness requirements in [Rule 507]Options 2, Section 1(a).

The term "**Firm**" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.

The term "**Professional**" applies to transactions for the accounts of Professionals, as defined in Exchange Rule 1000(b)([14]43) means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

The term "**Broker-Dealer**" applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

The term "**Joint Back Office**" or "**JBO**" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC and is identified with an origin code as a JBO. A JBO will be priced the same as a Broker-Dealer. A JBO participant is a member, member organization or non-member organization that maintains a JBO arrangement with a clearing broker-dealer ("JBO Broker") subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System as further discussed at [Exchange Rule 703]Options 6D, Section 1.

The term "**Common Ownership**" shall mean members or member organizations under 75% common ownership or control.

The term "**Non-Customer**" applies to transactions for the accounts of [Specialists]Lead Market Makers, Market Makers, Firms, Professionals, Broker-Dealers and JBOs

\* \* \* \* \*

The term "**Appointed MM**" is a Phlx Market Maker or [Specialist]Lead Market Maker who has been appointed by an Order Flow Provider ("OFP") for purposes of qualifying as an Affiliated

Entity. An OFP is a member or member organization that submits orders, as agent or principal, to the Exchange.

The term "**Appointed OFP**" is an OFP who has been appointed by a Phlx Market Maker or [Specialist]Lead Market Maker for purposes of qualifying as an Affiliated Entity.

The term "**Affiliated Entity**" is a relationship between an Appointed MM and an Appointed OFP for purposes of qualifying for certain pricing specified in the Pricing Schedule. Market Makers or [Specialists]Lead Market Makers, and OFPs are required to send an email to the Exchange to appoint their counterpart, at least 3 business days prior to the last day of the month to qualify for the next month. The Exchange will acknowledge receipt of the emails and specify the date the Affiliated Entity is eligible for applicable pricing, as specified in the Pricing Schedule. Each Affiliated Entity relationship will commence on the 1st of a month and may not be terminated prior to the end of any month. An Affiliated Entity relationship will terminate after a one (1) year period, unless either party terminates earlier in writing by sending an email to the Exchange at least 3 business days prior to the last day of the month to terminate for the next month. Affiliated Entity relationships must be renewed annually. Members and member organizations under Common Ownership may not qualify as a counterparty comprising an Affiliated Entity. Each member or member organization may qualify for only one (1) Affiliated Entity relationship at any given time.

#### **A. Mini Options Fees**

The following fees will apply to Mini Options as specified in [Rule 1012, Commentary .13]Options 4, Section 5 at Supplementary Material .13.

**Customer Professional [Specialist]Lead Broker- Firm  
Market Maker Dealer  
and Market  
Maker**

\* \* \* \* \*

#### **B. Customer Rebate Program**

The Customer Rebate Tiers described below will be calculated by totaling Customer volume in Multiply Listed Options (including SPY) that are electronically-delivered and executed, except volume associated with electronic QCC Orders, as defined in [Exchange Rule 1088]Options 3, Section 12. Rebates will be paid on Customer Rebate Tiers according to the below categories. Members and member organizations under Common Ownership may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates. Affiliated Entities may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates

\* \* \* \* \*

\* The Exchange will pay a \$0.02 per contract Category A and B rebate and a \$0.03 per contract Category C and D rebate in addition to the applicable Tier 2 and 3 rebate, provided the [Specialist]Lead Market Maker, Market Maker or Appointed MM has reached the Monthly Market Maker Cap as defined in Options 7, Section 4, to: (1) a [Specialist]Lead Market Maker or Market Maker who is not under Common Ownership or is not a party of an Affiliated Entity; or (2) an OFP member or member organization affiliate under Common Ownership; or (3) an Appointed OFP of an Affiliated Entity.

\* \* \* \* \*

## **Section 2. Collection of Exchange Fees and Other Claims**

(a) Each member organization, and all applicants for registration as such shall be required to provide a clearing account number for an account at the National Securities Clearing Corporation ("NSCC") for purposes of permitting the Exchange to debit any undisputed or final fees, fines, charges and/or other monetary sanctions or other monies due and owing to the Exchange or other charges related to [Rule 924]General 2, Section 2. If a member disputes an invoice, the Exchange will not include the disputed amount in the debit if the member has disputed the amount in writing to the Exchange's designated staff by the 15th of the month, or the following business day if the 15th is not a business day, and the amount in dispute is at least \$10,000 or greater.

## **Section 3. Rebates and Fees for Adding and Removing Liquidity in SPY**

With respect to Section 3 of this Options 7 Pricing Schedule, the order that is received by the trading system first in time shall be considered an order adding liquidity and an order that trades against that order shall be considered an order removing liquidity, except with respect to orders that trigger an order exposure alert. Customer volume attributable to this section will be included in the calculation of Customer volume in Multiply Listed Options that are electronically-delivered and executed for purposes of the Customer Rebate Program in Section B. However, the rebates defined in Section B will not apply to electronic executions in SPY.

### **Part A. Simple Order**

<b>Customer [Specialist]Lead Market Maker</b>	<b>Market Maker</b>	<b>Firm Broker- Dealer</b>	<b>Professional</b>
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\* \* \* \* \*

\* The Simple Order Rebate for Adding Liquidity will be paid as noted below to [Specialists]Lead Market Makers and Market Makers adding the requisite amount of electronically executed [Specialist]Lead Market Maker and Market Maker Simple Order contracts per day in a month in SPY:

\* \* \* \* \*

### **Part B. Complex Order**



- All other Non-Customer contra parties to the PIXL Order that are not the Initiating Order will be assessed a Fee for Removing Liquidity of \$0.50 per contract or will receive the Rebate for Adding Liquidity. When the PIXL Order is contra to a [Specialist]Lead Market Maker or Market Maker quote, which was established at the initiation of a PIXL auction, the Customer PIXL Order will not be eligible for a rebate.

**Section 4. Multiply Listed Options Fees (Includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed)**

Customer	Professional	<u>[Specialist]Lead Market Maker and Market Maker</u>	Broker-Dealer	Firm
Electronic Floor	Electronic Floor	Electronic Floor	Electronic Floor	Electronic Floor
* * * * *				

- QCC Transaction Fees for a [Specialist]Lead Market Maker, Market Maker, Firm and Broker-Dealer are \$0.20 per contract. Customers and Professionals are not assessed a QCC Transaction Fee. QCC Transaction Fees apply to QCC Orders, as defined in [Exchange Rule 1088]Options 3, Section 12, and Floor QCC Orders, as defined in [1064]Options 8, Section 30(e). A rebate, as specified in the below QCC Rebate Schedule, will be paid for all qualifying executed QCC Orders, as defined in [Exchange Rule 1088]Options 3, Section 12, and Floor QCC Orders, as defined in 1064(e), except where the transaction is either: (i) Customer-to-Customer; (ii) Customer-to-Professional, (iii) Professional-to-Professional or (iv) a dividend, merger, short stock interest or reversal or conversion strategy execution (as defined in Options 7, Section 4).

\* \* \* \* \*

- [Specialists]Lead Market Makers and Market Makers are subject to a "Monthly Market Maker Cap" of \$500,000 for: (i) electronic Option Transaction Charges, excluding surcharges and excluding options overlying NDX and NDXP; and (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)). The trading activity of separate [Specialist]Lead Market Maker and Market Maker member organizations will be aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in this Options 7, Section 4) will be excluded from the Monthly Market Maker Cap. [Specialists]Lead Market Makers or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order, excluding responses to a PIXL auction; and (ii) have reached the Monthly Market Maker Cap will be assessed fees as follows:

\* \* \* \* \*

- Specialists and Market Makers are subject to a "Monthly Market Maker Cap" of \$500,000 for: (i) electronic Option Transaction Charges, excluding surcharges and excluding options overlying NDX and NDXP; and (ii) QCC Transaction Fees (as defined in Exchange [Rule 1080(o)]Options



3, Section 12 and Floor QCC Orders, as defined in [1064]Options 8, Section 30(e)). The trading activity of separate Specialist and Market Maker member organizations will be aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in this Options 7, Section 4) will be excluded from the Monthly Market Maker Cap. Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order, excluding responses to a PIXL auction; and (ii) have reached the Monthly Market Maker Cap will be assessed fees as follows:

\* \* \* \* \*

- The Firm Floor Options Transaction Charges will be waived for members executing facilitation orders pursuant to Options 8, Section 30[Exchange Rule 1064] when such members are trading in their own proprietary account (including Cabinet Options Transaction Charges). The Firm Floor Options Transaction Charges will be waived for the buy side of a transaction if the same member or its affiliates under Common Ownership represents both sides of a Firm transaction when such members are trading in their own proprietary account. In addition, the Broker-Dealer Floor Options Transaction Charge (including Cabinet Options Transaction Charges) will be waived for members executing facilitation orders pursuant to Options 8, Section 30[Exchange Rule 1064] when such members would otherwise incur this charge for trading in their own proprietary account contra to a Customer ("BD-Customer Facilitation"), if the member's BD-Customer Facilitation average daily volume (including both FLEX and non-FLEX transactions) exceeds 10,000 contracts per day in a given month. NDX and NDXP Options Transactions will be excluded from each of the waivers set forth in the above paragraph.

\* \* \* \* \*

*Strategy Caps:*

To qualify for a strategy cap, the buy and sell side of a transaction must originate from the Exchange floor.

<b>Floor Options Transactions - Multiply Listed Options</b>	<b>Strategy</b>	<b>Qualification</b>	<b>Cap</b>
[Specialist] <u>Lead Market Maker</u> , Market Maker, Professional, Firm and Broker-Dealer	dividend, merger and short stock interest strategies	executed on the same trading day in the same options class when such members are trading in their own proprietary accounts.	\$1,500
[Specialist] <u>Lead Market Maker</u> , Market Maker,	reversal and conversion strategies	executed on the same trading day in the same options class	\$700

Professional, Firm and  
Broker-Dealer

[Specialist]Lead Market Maker, Market Maker, Professional, Firm and Broker-Dealer jelly rolls executed on the same trading day in the same options class \$700

[Specialist]Lead Market Maker, Market Maker, Professional, Firm and Broker-Dealer box spreads executed on the same trading day in the same options class \$700

Per member organization dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategies ("Monthly Strategy Cap") combined executions in a month when trading in own proprietary accounts \$65,000

\* \* \* \* \*

## Marketing Fees

Options that are trading in the Penny Pilot Program \$0.25 per contract

Remaining Equity Options \$0.70 per contract

- For trades resulting from either Directed or non-Directed Orders that are delivered electronically and executed on the Exchange, the above fees will be assessed on [Specialists]Lead Market Makers, Market Makers and Directed [ROT]Market Makers on those trades when the [Specialist]Lead Market Maker unit or Directed [ROT]Market Maker elects to participate in the Marketing program.

\* \* \* \* \*

- Marketing Fees will be assessed on transactions resulting from Customer orders and are available to be disbursed by the Exchange according to the instructions of the [Specialist]Lead Market Maker units/[Specialists]Lead Market Makers or Directed [ROT]Market Makers to order flow providers who are members or member organizations, who submit, as agent, Customer orders to the Exchange or non-members or non-member organizations who submit, as agent, Customer orders to the Exchange through a member or member organization who is acting as agent for those Customer orders.
- Any excess Marketing Fee funds billed but not utilized by the [Specialist]Lead Market Maker or Directed [ROT]Market Maker will be carried forward unless the Directed [ROT]Market Maker or [Specialist]Lead Market Maker elects to have those funds



<b>Fee for Removing Liquidity</b>	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
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\* \* \* \* \*

The fees for FX Options executions in all electronic auctions including, but not limited to, the Quote Exhaust auction, the opening process and Complex electronic auction, including the Complex Order Live Auction ("COLA"), will be \$0.40 per contract for Customer, Professional, Firm, Broker-Dealer, [Specialist]Lead Market Maker and Market Maker.

\* \* \* \* \*

**Section 6. Other Transaction Fees**

**A. PIXL Pricing\***

\* \* \* \* \*

- When a PIXL Order is contra to a PIXL Auction Responder, a Customer PIXL Order will be assessed \$0.00 per contract, other Non-Customer PIXL Orders will be assessed \$0.30 per contract in Penny Pilot Options or \$0.38 per contract in Non-Penny Pilot Options. A Responder that is a [Specialist]Lead Market Maker or a Market Maker will be assessed \$0.25 per contract in Penny Pilot Options or \$0.40 per contract in Non-Penny Pilot Options. Other Non-Customer Responders will be assessed \$0.48 per contract in Penny Pilot Options or \$0.70 per contract in Non-Penny Pilot Options when contra to a PIXL Order. A Responder that is a Customer will be assessed \$0.00 per contract in Penny Pilot Options and Non-Penny Pilot Options.

\* \* \* \* \*

**B. FLEX Transaction Fees**

- FLEX Multiply Listed Options:

\* \* \* \* \*

- The FLEX transaction fees for a Firm will be waived for members executing facilitation orders pursuant to Options 8, Section 30[Exchange Rule 1064] when such members are trading in their own proprietary account. In addition, FLEX transaction fees for a Broker-Dealer will be waived for members executing facilitation orders pursuant to Options 8, Section 30[Exchange Rule 1064] when such members would otherwise incur this charge for trading in their own proprietary account contra to a Customer ("BD-Customer Facilitation"), if the member's BD-Customer Facilitation average daily volume (including both FLEX and non-FLEX transactions) exceeds 10,000 contracts per day in a given month.

\* \* \* \* \*

**Section 8. Membership Fees**

**A. Permit and Registration Fees**

## Permit Fees for Phlx Members (per month)

## Phlx Permit Fees

Floor Broker Permit Fee \$4,000

Floor [Specialist] Lead Market Maker and Floor Market Maker \$6,000

Permit Fees for all other member and member organizations, including Remote [Specialists]Lead Market Makers and Remote Market Makers: \$4,000 in a given month, unless the member or member organization or member organizations under Common Ownership, executes at least 100 options in a Phlx house account that is assigned to one of the member organizations in a given month, in which case the Permit Fee will be \$2,300 for that month.

\* \* \* \* \*

- Permit Fees: The Exchange has established the date of notification of termination of a permit as the date that permit fee billing will cease. The Exchange will not bill a member organization for more than one monthly permit fee if the member organization transfers an existing permit to another valid permit holder that is primarily affiliated with the member organization, as set forth in General 3, Sections 1 and 11(f) and [Rules 908(f) and 910], provided that the transfer from one permit holder to another occurs within the same business day. Additionally, a permit holder will be billed only one monthly permit fee if the holder transfers from one member organization to another previously unrelated member organization as a result of a merger, partial sale or other business combination during a monthly permit fee period in order to avoid double billing in the month the merger or business combination occurred.

- The Initiation Fee is imposed on a new member upon the issuance of a permit, notwithstanding the fact that the new member may have been a former permit holder.

**Clerk Fee** \$100 per month

- This Clerk Fee is imposed on any registered on-floor person employed by or associated with a member or member organization pursuant to Options 3, Section 19[Rule 1090], including Inactive Nominees pursuant to Options 8, Section 7[Rule 925]. This fee is not imposed on permit holders.

**D. Remote [Specialist]Lead Market Maker Fee** \$200 per option allocation per month

The Remote [Specialist]Lead Market Maker Fee will be capped at \$4,500 per month.

## Section 9. Other Member Fees

### A. OPTION TRADING FLOOR FEES

**Floor Facility Fees** (applicable to Clerks (excluding Inactive Nominees pursuant to [Rule 925]Options 8, Section 7), Floor Brokers, [ROTs]Market Makers (including SQTs) and individual [Specialists]Lead Market Makers) \$330 per month

\* \* \* \* \*

#### **D. Appeal Fees**

**Review/Process Subordinated Loans** \$25  
**Forum Fee Pursuant to Rule [60]9216** \$100  
**Review Fee Pursuant to [Rule 124]Options 8, Section 35** \$250  
**Obvious Error and Catastrophic Error Fee Pursuant to Rule [1092]Options 3, Section 20(l)** \$500

\* \* \* \* \*

#### **Section 12. Covered Sale Fee**

(a) Under Section 31 of the Exchange Act, the Exchange must pay certain fees to the SEC. To help fund the Exchange's obligations to the Commission under Section 31, a Covered Sale Fee is assessed by the Exchange to members and member organizations. To the extent there may be any excess monies collected under this Rule, the Exchange may retain those monies to help fund its general operating expenses.

(b) Each member and member organization engaged in executing sale transactions on the Exchange or executing transactions on another exchange or on a Participant in FINRA's Alternative Display Facility ("ADF Participant"), which were routed through the Exchange's Routing Facility, as defined in Options 5, Section 4(a)(ii)(A), during any computational period shall pay a Covered Sale Fee equal to (i) the Section 31 fee rate multiplied by (ii) the member's aggregate dollar amount of covered sales.

(c) A Covered Sale Fee is assessed by the Exchange to each member for sales of securities in the following circumstances:

(i) When a sale in equity securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.

(ii) When a sale in option securities occurs with respect to which the Exchange is obligated to pay a fee to the SEC under Section 31 of the Act.

(iii) When a sell order in option securities is routed for execution at a market other than the Exchange's options market, resulting in a covered sale on that market and an obligation of the Exchange's Routing Facility to pay the related sales fee of that market.

(d) The Covered Sale Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of the Exchange

\* \* \* \* \*

## **Options 8 Floor Trading**

### ***General Provisions***

#### **Section 1. Applicability.**

(a) The Options 8 Rules shall apply to Exchange options transactions by and among members and member organizations physically located on the Exchange's options trading floor, including the trading crowds, and shall govern all activity that occurs in the physical space designated by the Exchange as "trading floor" as well as trading conducted through the Options Floor Based Management. All executions that occur automatically within the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions ("System" or "Electronic System") shall be governed by all other Options Rules except for the Options 8 Rules.

(b) All Options Rules shall apply to Exchange Floor Trading, in addition to the Options 8 Rules, however where the Options 8 Rules disagree with another Options Rule not within Options 8 a conflict shall be resolved in favor of the Options 8 Rule as it applies to the Exchange Trading Floor.

#### **Section 2. Definitions**

(1) **Floor.** The term "floor" means the floor of the Exchange.

(2) **Floor Broker.** The term "Floor Broker" means an individual who is registered with the Exchange for the purpose, while on the Options Floor, of accepting and handling options orders.

(3) **Inactive Nominee.** The term "inactive nominee" shall mean a natural person associated with and designated as such by a member organization and who has been approved for such status and is registered as such with the Membership Department. An inactive nominee shall have no rights or privileges under a permit unless and until said inactive nominee becomes admitted as a member of the Exchange pursuant to the By-Laws and Rules of the Exchange. An inactive nominee merely stands ready to exercise rights under a permit upon notice by the member organization to the Membership Department on an expedited basis.

(4) **Presiding Exchange Officials.** The term "Presiding Exchange Officials" shall refer to the President of the Exchange and his designated staff who shall have general supervision over: (i) the options trading floor as well as general supervision of the dealings of members on the trading floor and on Exchange trading systems, and of the premises of the Exchange immediately adjacent thereto; (ii) the activities of [Specialists] Lead Market Makers, registered option traders, floor brokers, or other types of market makers and shall establish standards and procedures for the training and qualification of members active on the trading floor; (iii) all trading floor employees of members, and shall make and enforce such rules with respect to such employees as it may deem necessary; (iv) all connections or means of communications with the options trading

floor and may require the discontinuance of any such connection or means of communication when, in the opinion of the President or his designee, it is contrary to the welfare or interest of the Exchange; (v) the location of equipment and the assignment and use of space on the options trading floor; and (vi) relations with other options exchanges.

(5) **Permit.** The term "Permit" shall refer to the description in Rule 1(z). Additionally, notwithstanding applicable By-Laws and Rules conditioning membership, a Series A-1 permit holder on the Exchange's Trading Floor may be affiliated with up to two (2) member organizations (a primary and a secondary member organization) that are under common ownership. Both the primary and secondary member organizations shall notify the Membership Department of such an affiliation. This notification shall include: (i) an attestation of common ownership; (ii) the names of the individuals responsible for supervision of the permit holder; and (iii) the Exchange account numbers for billing purposes. For purposes of this Rule, "common ownership" shall be defined as at least 75% common ownership between the member organizations. A permit may not be transferred by lease, sale, gift, involuntary transfer, or any other means or as collateral to secure any obligation, except that a permit may be transferred within the Permit Holder's Member or to an "Inactive Nominee" who is registered as such with the Exchange, subject to the provisions of the By-Laws and Rules relating to an "Inactive Nominee".

(6) **Public Outcry.** The term "Public Outcry" shall refer, pursuant to [Rule 110]Options 8, Section 24 at Supplementary Material .01, bids and offers which must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

(7) **Floor Market Maker.** The term "*Floor Market Maker*" is a[n ROT] Market Maker who is neither an SQT or an RSQT. A Floor Market Maker may provide a quote in open outcry.

### *Administration*

#### **Section 3. Imposition**

The Board of Directors may, from time to time, fix and impose a charge upon members and member organizations measured by their respective net commissions on transactions effected on the Floor of the Exchange.

### *Membership, and Registration*

#### **Section 4. Rights and Privileges of A-1 Permits**

(a) A Series A-1 permit holder shall be subject to Rule 908. Notwithstanding applicable By-Laws and Rules conditioning membership, a Series A-1 permit holder on the Exchange's Trading



Floor may be affiliated with up to two (2) member organizations (a primary and a secondary member organization) that are under common ownership. Both the primary and secondary member organizations shall notify the Membership Department of such an affiliation. This notification shall include: (i) an attestation of common ownership; (ii) the names of the individuals responsible for supervision of the permit holder; and (iii) the Exchange account numbers for billing purposes. For purposes of this Rule, "common ownership" shall be defined as at least 75% common ownership between the member organizations.

### **Section 5. Qualification as Member Organization**

(a) In addition to the requirements of [Rule 910]General 3, Section 1, applicants seeking membership on the Exchange Trading Floor are also required to demonstrate knowledge of Exchange Options Floor Rules and Procedures through an on-floor examination.

### **Section 6. Registration of Floor Brokers**

(a) An applicant for registration as an Option Floor Broker shall file his application in writing with Regulatory staff on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's ability as demonstrated by his passing an Options Floor Broker's examination prescribed by the Exchange, and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Floor Broker.

### **Section 7. Inactive Nominees**

(a) A member organization may designate an individual as an "Inactive Nominee." The member organization shall pay an Inactive Nominee Fee for the privilege of maintaining the Inactive Nominee status.

(1) The following requirements shall apply to Inactive Nominees:

(A) To be eligible for Inactive Nominee status, an individual must be approved as eligible to hold a permit in accordance with the By-Laws and Rules of the Exchange.

(B) An Inactive Nominee shall meet all membership requirements including examinations administered by the Exchange.

(C) An Inactive Nominee shall have no rights or privileges of a permit holder unless and until said Inactive Nominee becomes an effective permit holder and all applicable Exchange fees are paid.

(D) An Inactive Nominee's status will terminate after six (6) months unless it has been reaffirmed in writing by the member organization or terminated prior thereto.

(2) In order to designate an Inactive Nominee as an effective permit holder the member organization shall:

(A) Notify the Membership Department, in writing, prior to the opening of trading on any business day the name of the Inactive Nominee that the member organization

desires to designate as an effective permit holder. The notice must identify the name of the permit holder that the Inactive Nominee will be acting on behalf of as well as the expected duration that such Inactive Nominee will remain activated.

(b) Notwithstanding paragraph (ii)(a), a member organization may notify the Membership Department, in writing, of its desire to designate an Inactive Nominee as an effective permit holder intra-day in the event of an unforeseen emergency. The notice must identify the name of the Inactive Nominee, the name of the permit holder that the Inactive Nominee will be acting on behalf of, and the expected duration that such Inactive Nominee will remain activated. Such intra-day designations must be approved by the Chief Regulatory Officer or his/her designee prior to such Inactive Nominee becoming an effective permit holder.

### **Section 8. Trading Floor Registration**

(a) Trading Floor Member Registration - Each Floor Broker, [Specialist]Lead Market Maker and [Registered Options Trader]Floor Market Maker on the Exchange trading floor must be registered as "Member Exchange" ("ME") under "PHLX" on Form U4. In addition, each Floor Broker, [Specialist]Lead Market Maker and [Registered Options Trader]Floor Market Maker must successfully complete the appropriate floor trading examination(s), if prescribed by the Exchange, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the trading status of any such member who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(b) Non-member/Clerk Registration-All trading floor personnel, including clerks, interns, stock execution clerks and any other associated persons, of a member organization not required to register pursuant to subparagraph (a) must be registered as "Floor Employee" ("FE") under "PHLX" on Form U4. Further, the Exchange may require successful completion of an examination, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(c) Members whose activities are limited to the Exchange's options trading floor and who are registered pursuant to subparagraph (a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to subparagraph (b) are

exempt from the representative registration requirements (but not the principal registration requirements, including any prerequisite representative registration requirement) of General 4, Section 1.1210 and 1.1220.

### **Section 9. Trading Floor Admittance**

(a) No employee of a member or member organization shall be admitted to the trading floor unless that person is registered with and approved by the Exchange, which may in its discretion require the payment of a fee with respect to each employee so approved, and may at any time in its discretion withdraw any approval so given. Notwithstanding the foregoing, Section 39, Options Regulation 5 describes the procedures for non-member visitors.

### **Section 10. Training**

(a) In addition to [Rule 625]General 9, Section 60 requirements, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.

### ***Market Participants***

### **Section 11. Floor Market Maker and [Specialist]Lead Market Maker Appointment**

(a) In addition to the requirements specified in [Rule 501]Options 2, Section 11 related to the appointment of a [Specialist]Lead Market Maker, each [Specialist]Lead Market Maker unit must consist of at least the following staff for each Trading Floor [Specialist]Lead Market Maker post: (1) one head [Specialist]Lead Market Maker; and (2) one assistant [Specialist]Lead Market Maker t that must be associated with the [Specialist]Lead Market Maker unit. The Exchange, in its discretion, may require a unit to obtain additional staff depending upon the number of assigned options classes and associated order flow.

(1) An options [Specialist]Lead Market Maker currently operating from the Exchange's Trading Floor or a Remote Streaming Quote Trader ("RSQT"), as defined in [Rule 1014]Options 1, Section 1(b)(49), may submit an application as described in [Rule 501]Options 2, Section 11 to be approved in one or more classes as a Remote [Specialist]Lead Market Maker as defined in [Rule 1020]Options 2, Section 12(a)(ii).

(2) In making a determination regarding the application of an options [Specialist]Lead Market Maker currently operating from the Exchange's Trading Floor that requests authorization to operate as a Remote [Specialist]Lead Market Maker t, the Exchange will evaluate whether the change is in the best interest of the Exchange and may consider information that it believes will be of assistance to it. Factors to be considered may include, but are not limited to, any one or more of the following: performance, operational capacity of the Exchange or options [Specialist]Lead Market Maker, efficiency, number and experience of personnel of the options [Specialist]Lead Market Maker who will be performing functions related to the trading of the applicable securities, number of securities involved, number of [ROTs]Floor Market Makers and SQTs affected and trading volume of the securities.

(b) A Floor Market Maker shall notify the Exchange of each option, on an issue-by-issue basis, in which such Floor Market Maker intends to be assigned to make markets. Exchange options transactions initiated by such Market Maker on the Trading Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes. Such notification shall be in writing on a form prescribed by the Exchange ("Floor Market Maker Assignment Form"). Any change to such Floor Market Maker Assignment Form shall be made in writing by the Floor Market Maker prior to the end of the next business day in which such change is to take place. Receipt of the properly completed Floor Market Maker Assignment Form by a duly qualified Floor Market Maker applicant constitutes acceptance by the Exchange of such Floor Market Maker's assignment in, or termination of assignment in (as indicated on the Floor Market Maker Assignment Form), the options listed on such Floor Market Maker Assignment Form. All such assignments shall not be effective, and shall be terminated, in the event that such Floor Market Maker applicant fails to qualify as a Floor Market Maker on the Exchange.

## **Section 12. Clerks**

(a) The term "Clerk" means any registered on-floor person employed by or associated with a member or member organization who is not a member and is not eligible to effect transactions on the Options Floor as a [Specialist]Lead Market Maker, [Registered Options Trader]Floor Market Maker, or Floor Broker. For purposes of this Rule, an Inactive Nominee shall be deemed a Clerk.

(b) Badges. While on the trading floor, Clerks shall display prominently at all times the identification supplied to them by the Exchange.

(c) Conduct on the Trading Floor. Clerks shall be primarily located at a post assigned to their employer or assigned to their employer's clearing firm unless such Clerk is:

- (1) entering or leaving the trading floor;
- (2) transmitting, correcting, or checking the status of an order or reporting or correcting an executed trade; or
- (3) supervising other Clerks of his member organization if he is identified as a supervisor on the registration form submitted to the Exchange's Membership Department.

(d) Registration Requirements. A member or member organization who employs a Clerk that performs any function other than a solely clerical or ministerial function shall, prior to the time such Clerk performs any function as a Clerk, (i) comply with the registration requirement(s) set forth in Exchange General 4, Section 1.1210, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) submit to the Exchange written supervisory procedures relating to such Clerk's activities in accordance with [Exchange Rule 748]General 9, Section 20.

(e) Clerks' Use of Vendor Quote Terminals and Other Order-Entry Devices.

A Clerk may enter an order under the direction of a member by way of a vendor quote terminal or any other order handling entry device.

(f) [Specialist]Lead Market Maker Clerks. A [Specialist]Lead Market Maker Clerk is any on-floor Clerk, not a member of the Exchange, employed by or associated with a member or member organization registered as a [Specialist]Lead Market Maker.

- (1) *Registration Requirements*. Any member or member organization that employs a [Specialist]Lead Market Maker Clerk shall register such [Specialist]Lead Market Maker Clerk with the Exchange's Membership Department. A [Specialist]Lead Market Maker Clerk that performs any function other than a solely clerical or ministerial function shall, prior to performing any function as a [Specialist]Lead Market Maker Clerk, (i) comply with the registration requirement(s) set forth in Exchange General 4, Section 1.1210, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) in accordance with [Exchange Rule 748]General 9, Section 20, submit to the Exchange written supervisory procedures relating to such [Specialist]Lead Market Maker Clerk's activities.
- (2) *Conduct on the trading floor*. A [Specialist]Lead Market Maker Clerk is permitted to communicate verbal market information (i.e., bid, offer, and size) in response to requests for such information, provided that such information is communicated under the direct supervision of his or her member employer. A [Specialist]Lead Market Maker Clerk may consummate electronic transactions under the express direction of his or her member employer by matching bids and offers. Such bids and offers and transactions effected under the supervision of a member employer are binding as if made by the member employer.

## ***Regulation***

### **Section 13. Acts Detrimental to the Interest or Welfare of the Exchange**

(a) In addition to [Rule 708]Options 9, Section 5, acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, misconduct on the Trading Floor, in violation of the Exchange's Order and Decorum Regulations, that is repetitive, egregious or of a publicly embarrassing nature to the Exchange.

### **Section 14. Financial Responsibility and Reporting**

(a) In addition to the obligations specified within [Rule 703]Options 6D, Section 1, each member organization whose principal business is as a floor broker on the Exchange and who is not self-clearing must establish and maintain an account with a clearing member organization of the Exchange, for the sole purpose of carrying positions resulting from errors made in the course of its floor brokerage business. Such an account for options transactions must be maintained with an entity which is also a clearing member organization of The Options Clearing Corporation. A floor broker prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the floor broker with respect to all orders entrusted on the floor with the floor broker as well as all transactions and balances

carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing member of its intent to no longer clear or carry transactions for such floor broker. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

### **Section 15. "Stopping" An Option**

(a) An agreement to "stop" an option at a specified price constitutes a guarantee by the member who "grants the stop" that the order of the member who, "accepts the stop" will be executed at the stop price or better. No member is required to agree to grant or accept a stop.

(b) A member shall not accept a stop for an account in which he or another member has an interest unless:

- (1) he is acting for an order originated off the Floor; or
- (2) in the case of an order originated on the Floor, the member granting the stop is also acting for an account in which he or another member has an interest; or
- (3) he is effecting a transaction to offset a transaction made in error; or
- (4) he is engaged in bona fide arbitrage.

(c) No [Specialist]Lead Market Maker may stop an option against the book or for his own account at a price at which he holds an order capable of execution at that price; except;

- (1) in connection with an opening or reopening; or
- (2) when there is a competing bid or offer in the crowd at the same price at which the stop is granted; or
- (3) when the [Specialist]Lead Market Maker does not have an executable order at the stop price; or
- (4) when a broker makes an unsolicited request that a [Specialist]Lead Market Maker grant him a stop, and
  - (A) the spread in the quotation is not less than twice the permitted minimum increment in the option;
  - (B) after the granting of the stop, the spread between the bid and the offer is reduced;
  - (C) the [Specialist]Lead Market Maker does not reduce the size of the market following the granting of the stop; and

(D) on the election of the stop, the order or orders on the [Specialist's]Lead Market Maker's book entitled to priority will be executed against the stopped option.

(5) Each "stopped" transaction shall be reported for printing on the tape in the form and manner prescribed by the Exchange.

#### **Section 16. Trading for Joint Account**

(a) No member, while on the Floor, shall, without the prior approval of the Exchange, initiate the purchase or sale on the Exchange of any security for any account in which he, his member organization or a participant therein, is directly or indirectly interested with any person other than such member organization or participant therein.

(b) The provisions of this section shall not apply to any purchase or sale by any member for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions.

#### **Section 17. Limitations on Members' Trading Because of Customers' Orders**

(a) In addition to the limitations [in Rule 452]set forth below, a member organization's member on the Trading Floor may not execute a proprietary order at the same price, or at a better price, as an unexecuted customer order that he or she is representing, except to the extent the member itself could do so under this Rule.

(b) Except as provided in this Rule, no member or member organization shall cause the entry of an order to buy (sell) on the Exchange any security listed or traded on the Exchange for any account in which such member or member organization or any associated person thereof is directly or indirectly interested (a "proprietary order"), if the person responsible for the entry of such order has knowledge of any particular unexecuted customer order to buy (sell) such security which could be executed at the same price.

(c) A member or member organization may enter a proprietary order while representing a customer order which could be executed at the same price, provided the customer's order is not for the account of an individual investor, and the customer has given express permission, including an understanding of the relative price and size-of allocated-execution reports, under the following conditions:

(1) the member or member organization is liquidating a position held in a proprietary facilitation account, and the customer order is for 10,000 shares or more;

(2) the member or member organization is creating a bona fide hedge ("hedge") and (i) the creation of the hedge, whether through one or more transactions, occurs so close in time to the completion of the transaction precipitating such hedge that the hedge is clearly related; (ii) the size of the hedge is commensurate with the risk it offsets; (iii) the risk to be offset is the result of a position acquired in the course of facilitating a customer order; and (iv) the customer order is for 10,000 shares or more;

(3) the member or member organization is modifying an existing hedge and (i) the size of the hedge, as modified, remains commensurate with the risk it offsets; (ii) the hedge was

created to offset a position acquired in the course of facilitating a customer order; and  
(iii) the customer order is for 10,000 shares or more; or

(4) the member or member organization is engaging in bona fide arbitrage or risk arbitrage transaction, and recording such transactions in an account used solely to record arbitrage transactions (an "arbitrage account").

(d) The provisions of this Rule shall not apply to:

(1) any purchase or sale of any security in an amount of less than the unit of trading made by an odd-lot dealer to offset odd-lot orders of customers;

(2) any purchase or sale of any security upon terms for delivery other than those specified in such unexecuted market or limited price order;

(3) transactions by a member or member organization acting in the capacity of a specialist or market maker in a security listed or traded on the Exchange otherwise than on the Exchange; and

(4) transactions made to correct bona fide errors.

(e) A member or member organization or employee thereof responsible for entering proprietary orders shall be presumed to have knowledge of a particular customer order unless the member organization has implemented a reasonable system of internal policies and procedures to prevent the misuse of information about customer orders by those responsible for entering such proprietary orders.

(f) This Rule shall apply to any agency or proprietary transaction effected on the Exchange if such transaction ("Exchange transaction") is part of a group of related transactions that together have the effects prohibited by this Rule regardless whether (i) one or more of the other related transactions were effected on other market centers; or (ii) the Exchange transaction by itself had such effects.

(c) For purposes of paragraph (c) above, the term "account of an individual investor" shall mean an account covered by Section 11(a)(1)(E) of the Securities Exchange Act of 1934. For purposes of paragraph (c)(1) above, the term "proprietary facilitation account" shall mean an account in which a member organization has a direct interest and which is used to record transactions whereby the member organization acquires positions in the course of facilitating customer orders. Only those positions which are recorded in a proprietary facilitation account may be liquidated as provided in paragraph (c)(1). For purposes of paragraph (c)(2) and (c)(4) above, the terms "bona fide hedge", "bona fide arbitrage" and "risk arbitrage" shall have the meaning ascribed to such terms in Securities Exchange Act Release No. 15533, January 29, 1979. All transactions effected pursuant to paragraph (c)(4) above must be recorded in an arbitrage account.



(d) For purposes of paragraph (c)(2) above, a hedge will be deemed to be "clearly related" if either the first or last transaction comprising the hedge is executed on the same trade date as the transaction that precipitates such hedge. A member shall mark all memoranda of orders to identify each transaction creating or modifying a hedge as permitted under this Rule.

### **Section 18. General Responsibility of Floor Brokers**

(a) A Floor Broker handling an order is to use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange.

### **Section 19. Responsibilities of Floor Brokers - Treasury Securities Options**

(a) A Floor Broker handling a contingency order for Treasury securities options that is dependent upon quotations or prices other than those originating on the floor shall be responsible for satisfying the dependency requirement on the basis of the most reliable information reasonably available to him concerning such quotations and prices but, in no event, shall be held to an execution of such an order. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such information is subsequently found to have been erroneous.

### ***Floor Trading Rules***

#### **Section 20. Dealings on Floor—Hours**

(a) Dealings upon the Exchange shall be limited to the hours during which the Exchange is open for the transaction of business; and no member shall make any bid, offer or transaction upon the Floor before or after those hours, except that loans of money or securities may be made after the official closing of the Exchange.

#### **Section 21. Dealings on Floor—Persons**

(a) No member shall, while on the Floor, make a transaction with any non-member in any security admitted to dealings on the Exchange.

#### **Section 22. Execution of Options Transactions on the Trading Floor**

(a) Options transactions on the Exchange's Trading Floor shall be executed in one of the following ways:

- (1) automatically by the Exchange Trading System as provided in applicable Exchange Rules;
- (2) through the Options Floor Based Management System. Members authorized to operate on the floor are not permitted to execute orders in the Exchange's options trading crowd, except as follows:
  - (A) The Exchange may determine to permit executions otherwise than in accordance with subparagraphs (1) and (2) above respecting an option or all options in the event of a problem with Exchange systems.

(B) In addition, members can execute orders in the options trading crowd pursuant to Options 8, Section 33, Accommodation Transactions (cabinet trades), and Options 8, Section 34, FLEX Equity, Index and Currency Options.

(C) Multi-leg orders with more than 15 legs can be executed in the trading crowd.

(D) The following split price orders that, due to FBMS system limitations, require manual calculation:

- (i) simple orders not expressed in the applicable minimum increment ("sub-MPV") and that cannot be evenly split into two whole numbers to create a price at the midpoint of the minimum increment; and (ii) complex and multi-leg orders with at least one option leg with an odd-numbered volume that must trade at a sub-MPV price or one leg that qualifies under (i) above.

(E) As set forth in Options 8, Section 29(e)(v), members may use the Snapshot feature of the Options Floor Based Management System to provisionally execute orders in the options trading crowd.

- (i) Surveillance staff must approve all executions submitted under this Options 8, Section 22(a)(3)(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (a)(3)(D), the rounding of prices may be used only where necessary to execute the trade at the MPV, and only to the benefit of a Public Customer order or, where multiple Public Customers' orders are involved, for the Public Customer order that is earliest in time. If no Public Customer order is involved, rounding of prices is available to the non-Public Customer order that is earliest in time.

(b) Manner of Bidding and Offering. Bids and offers to be effective must either be entered electronically in a form and manner prescribed by the Exchange (as quotes or orders) or made by public outcry in the trading crowd (to which [Rule 110]Options 8, Section 35 at Supplementary Material .01 applies). All bids and offers shall be general ones and shall not be specified for acceptance by particular members.

(c) Public Outcry - Pursuant to [Rule 110] Options 8, Section 35 at Supplementary Material .01, bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

(d) With respect to using the Options Floor Based Management System to execute an order pursuant to Option 8, Section 22, a member must audibly say "out" before the order is submitted into the FBMS for execution and, if the order is not executed, the member must audibly say "out" before each time the member resubmits the order for execution.

### **Section 23. Precedence of Highest Bid**

(a) The highest bid shall have precedence in all cases pursuant to [Rule 119]Options 8, Section 24 at Supplementary Material .02. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

- (1) Sale removes bid from Trading Floor: A sale shall remove all bids from the Floor except that if the number of shares of stock or principal amount of bonds offered exceeds the number of shares or principal amount specified in the bid having priority or precedence, a sale of the unfilled balance to other bidders shall be governed by the provisions of these rules as though no sales had been made to the bidders having priority or precedence.
- (2) Subsequent bids: (i) After bids have been removed from the Trading Floor under the provisions of sub-paragraph (1) above, priority and precedence shall be determined, in accordance with these rules, by subsequent bids.

### **Section 24. Bids And Offers—Premium**

(a) *Size of Bid/Offer and Disseminated Size Guarantee.* All bids or offers made on the Floor for option contracts shall be deemed to be for one option contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of option contracts. Responsibility for ensuring that customer orders are filled to a minimum of the disseminated size at the disseminated price is as set forth in Options 3, Section 6[Exchange Rule 1082].

(b) *Solicitation of Quotations.* In response to a floor broker's solicitation of a single bid or offer, the members of a trading crowd (including the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers).

(c) Except as provided in (d) and (e) below, all bids or offers made on the Floor for option contracts shall be expressed as follows: (i) in the case of options on stocks or Exchange-Traded Fund Shares, in terms of dollars per share of the underlying stock or Exchange-Traded Fund Share (e.g., a bid of "5" shall represent a bid to pay a premium of \$500 for an option contract having a unit of trading consisting of 100 shares of an underlying stock or Exchange-Traded Fund Share, or a bid to pay a premium of \$550 for an option contract having a unit or trading consisting of 110 shares of an underlying stock Exchange-Traded Fund Share); (ii) In the case of

options on foreign currencies in terms of U.S. dollars per unit of the underlying foreign currency. E.g., a bid of "3.25" for a premium on a \$170 strike price option on the British pound shall represent a bid to pay \$325 per option contract; and (iii) *Mini Options*. Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of ".50" shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

(d) *Contract Adjustments*. All bids or offers for an option contract for which The Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of The Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading (e.g., where the adjusted unit of trading of an option contract consists of 110 shares of an underlying stock or Exchange-Traded Fund Share plus 15 rights, a bid of "5" shall represent a bid to pay a premium of \$550 for each option contract covering both the shares of underlying stock or Exchange-Traded Fund Share and the rights).

(e) *Spread Priority*. When a member holding a multi-leg order, as defined in Options 8, Section 32 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a multi-leg order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

(e) *Synthetic Option Orders*. When a member holding a synthetic option order, as defined in Options 8, Section 32, and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a synthetic option order at the total credit or debit with one other member, provided that the option leg is executed at a better price than the established bid or offer for that option contract, in accordance with Options 8, Section 25. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of Public Customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price.

(f) *Three-Way Spread Type Priority*. When a member holding a three-way order for foreign currency options determines that the order will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the three-way order, seek to execute the order at a total credit or debit with one other member provided that at least one of the individual legs to the order is effected at a price better than the established bid or offer for that option contract and that no option leg is executed at a price outside of the

established bid or offer for that option contract. For purposes of this Rule, three-way orders include spread, straddle and combination orders of three individual series in the same foreign currency options where (i) the order size for each of the three individual series are equal to each other, or (ii) the combined order size of any two series on the same side of the market is either equal to the order size of the third series by a or differs from the order size of the third series by a permissible ratio. For purposes of this paragraph, a permissible ratio is any one of the following: one-to-one, one-to-two, one-to-three and two-to-three.

(g) *Ratio Spread Type Priority.* A spread order may consist of different numbers of contracts so long as the number of contracts differ by a permissible ratio (a "Ratio Spread"). Similarly, the legs to a straddle or combination order may consist of different numbers of puts and calls so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) *Multi-Spread Priority.* When a member holding two spread type orders (spreads, straddles or combinations, as defined in Options 8, Section 32) for the same account determines that the orders will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the total of the two spread type orders, seek to execute both orders as a single transaction at a total net credit or debit with one other member, provided that at least one of the individual legs of each individual spread is executed at a better price than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract.

(i) *Spread Type Priority.* Through FBMS, Spread Type Orders consisting of a conforming ratio may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including Public Customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

#### Supplementary Material to Options 8, Section 24

.01 Bids and Offers—Manner. Bids and offers may be made simultaneously, as being essentially different propositions, and may be accepted without precedence of one over another. Bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer.

.02 Precedence of Highest Bid. The highest bid shall have precedence in all cases. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

Precedence of first bid

(a) When a bid is clearly established as the first made at a particular price, the maker shall be entitled to priority and shall have precedence on the next sale at that price, up to the number of shares of stock or principal amount of bonds specified in the bid, irrespective of the number of shares of stock or principal amount of bonds specified in such bid.

Precedence of bids equaling or exceeding amount offered

(b) When no bid is entitled to priority under paragraph (a) hereof (or when a bid entitled to priority or precedence has been filled and a balance of the offer remains unfilled) all bids for a number of shares of stock or principal amount of bonds equaling or exceeding the number of shares of stock or principal amount of bonds in the offer or balance, shall be on a parity and entitled to precedence over bids for less than the number of shares of stock or principal amount of bonds in such offer or balance, subject to the condition that if it is possible to determine clearly the order of time in which the bids so entitled to precedence were made, such bids shall be filled in that order.

Precedence of bids for amounts less than amount offered

(c) When no bid is entitled to priority under paragraph (a) hereof (or when a bid entitled to priority or precedence has been filled and a balance of the offer remains unfilled) and no bid has been made for a number of shares of stock or principal amount of bonds equaling or exceeding the number of shares of stock or principal amount of bonds in the offer or balance, the bid for the largest number of shares of stock or greatest principal amount of bonds shall have precedence, subject to the condition that if two or more such bids for the same number of shares of stock or principal amount of bonds have been made, and it is possible to determine clearly the order of time in which they were made, such bids shall be filled in that order.

Simultaneous bids

(d) When bids are made simultaneously, or when it is impossible to determine clearly the order of time in which they were made, all such bids shall be on a parity subject only to precedence based on the size of the bid under the provisions of paragraphs (b) and (c) hereof.

.03 Precedence of Offers at Same Price. The lowest offer shall have precedence in all cases. Where offers are made at the same price the priority and precedence shall be determined in the same manner as specified in the case of bids in Options 8, Section 23 hereof.

**Section 25. Floor Allocation**

(a) The following applies to the allocation of orders on the Trading Floor:

- (1) [Exchange Rules 119 and 120]Supplementary Material .02 and .03 to Options 8, Section 30 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (B) below. For the purpose of this Rule, "Initiating Order" means an incoming contra-side order.
- (A) Respecting transactions that are executed and allocated in open outcry by a participant other than the [Specialist]Lead Market Maker, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Rule. The Remainder of the Order shall be allocated pursuant to this Rule.
- (i) Orders of controlled accounts, other than [ROTs]Floor Market Makers and [Specialists]Lead Market Makers market making in person, must be (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by making the appropriate notation the Options Floor Based Management System.
- (ii) The Enhanced [Specialist]Lead Market Maker Participation is a percentage of the Remainder of the Order to which the [Specialist]Lead Market Maker is entitled.
- (B) An Initiating Order executed manually by the [Specialist]Lead Market Maker shall be allocated as follows: first, to customer orders, and next to [o]Off-[f]Floor [b]Broker-[d]Dealer [l]Limit [o]Orders (as defined in [Rule 1080(b)(i)(C)]Options 1, Section 1(b)(33)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in [Rule 1014(g)(vii)]Options 3, Section 10. "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to [o]Off-[f]Floor [b]Broker-[d]Dealers in accordance with this sub-paragraph.
- (2) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).
- (i) When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such

member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.

- (ii) The Exchange may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made on the Exchange's website. This paragraph shall only apply to transactions that are effected in open outcry.

(b) *Enhanced [Specialist]Lead Market Maker Participation* —In equity option, index option and U.S. dollar-settled foreign currency options classes, when the registered [Specialist]Lead Market Maker is on parity with a controlled account as defined in subparagraph (i) above, in accordance with [Exchange Rules 119 and 120]Supplementary Material .02 and .03 to Options 8, Section 30 and the number of contracts to be bought or sold is greater than five, the [Specialist]Lead Market Maker is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced [Specialist]Lead Market Maker Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the [Specialist]Lead Market Maker is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the [Specialist]Lead Market Maker is entitled to receive 40% of the Remainder of the Order.

- (1) The Exchange shall reduce the level of Enhanced [Specialist]Lead Market Maker Participation authorized under this Rule to a parity level of participation in accordance with [Rules 119 and 120] Supplementary Material .02 and .03 to Options 8, Section 30 with respect to any options class if the [Specialist]Lead Market Maker in such class is determined to be performing below any minimum standards or not satisfying any conditions that the Exchange may establish. The Exchange may reinstate Enhanced [Specialist]Lead Market Maker Participation for a particular options class if it determines that the [Specialist]Lead Market Maker in such class is performing at or above all established minimum standards and is satisfying all established conditions.

(c) *Allocation of the Remainder of the Order Among [Specialist]Lead Market Maker and [ROTs]Floor Market Makers on Parity.* After the application of Options 8, Section 25(a)(1) to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in paragraph (c)(3)(F)(i) below) as follows:

- (1) *Entitlement.* [ROTs]Floor Market Makers and [Specialists]Lead Market Makers on parity are entitled to their Defined Participation (as described below), subject to: (a) any Waiver, as described below; and (b) rounding, as described below.
- (2) *Size.* The term "stated size" in respect of an order or electronic quotation shall mean:
- (A) in the case of orders handled manually by the [Specialist]Lead Market Maker:
- (i) if a crowd participant (including the [Specialist]Lead Market Maker) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;



- (ii) if the [Specialist]Lead Market Maker, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such [Specialist]Lead Market Maker, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such [Specialist]Lead Market Maker, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of paragraph (c);
- (B) unless the [Specialist]Lead Market Maker has an Actual Size, the stated size of the [Specialist]Lead Market Maker shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all [ROTs]Floor Market Makers who have Actual Sizes;
- (C) the stated size of an ROT who does not have an Actual Size is zero.
  - (i) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.
- (3) *Defined Participation*. Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:
  - (A) in the case of a [Specialist]Lead Market Maker entitled to an Enhanced [Specialist]Lead Market Maker Participation, the Enhanced [Specialist]Lead Market Maker Participation, up to the [Specialist's]Lead Market Maker's stated size, as set forth in paragraph (b) of this Rule, as applicable. The [Specialist]Lead Market Maker may decline to receive the Enhanced [Specialist]Lead Market Maker Participation, in which case the [Specialist]Lead Market Maker shall be entitled to participate as one crowd participant, up to the [Specialist's]Lead Market Maker's stated size.
  - (B) except as provided in (A) above, the Defined Participation of the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers on parity is determined as follows:
    - (i) where all participants have equal stated sizes, their Defined Participations shall be equal;
    - (ii) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):
      - a. the "Base Participations" of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental Participation, and the other participants shall have "Supplemental Participations" as determined under "b" and "c" below;

- b. if the remaining stated sizes (*i.e.*, after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further "Supplemental Participations" as determined under "c" below; and
- c. if the remaining stated sizes (*i.e.*, after taking into account Base Participations and prior Supplemental Participations) of all participants having *further* Supplemental Participations is equal, then their *further* Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause.
- d. The process described in clause "c" shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

(iii)

- a. If the sum of the Base Participations pursuant to sub-paragraph "a" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.
  - b. If the sum of the Supplemental Participations pursuant to sub-paragraph "b" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.
  - c. If the sum of the further Supplemental Participations pursuant to subparagraph "c" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.
- (3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Rule. Notwithstanding the limitation set forth in sub-paragraph (3)(A) that limits the [Specialist's]Lead Market Maker's entitlement to his/her stated size, for

all contracts executed in excess of the disseminated size, the Specialist shall be entitled to receive the Enhanced Specialist Participation as set forth in paragraph (b) of this Rule, as applicable, but not to exceed the Specialist's Actual Size (if the Specialist has an Actual Size) in such excess contracts.

- (C) *Waiver.* (1) An ROT (other than an RSQT) or Specialist may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an "Offer to Waive").
- (i) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.
- (ii) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (a) allocating the Remainder of the Order in accordance with paragraph (c), taking into account the Offer to Waive; or (b) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a "Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.
- (iii) In the case of an option which is not subject to an Enhanced [Specialist]Lead Market Maker Participation, as set forth in paragraph (b) of this Rule, if the [Specialist]Lead Market Maker or an ROT effects a Waiver in the manner provided above, the number of contracts to which such [Specialist]Lead Market Maker or ROT is entitled under paragraph (c) shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the [Specialist]Lead Market Maker) in accordance with paragraph (c).
- (2) In the case of an option which is subject to an Enhanced [Specialist]Lead Market Maker Participation, as set forth in paragraph (b) of this Rule, and one or more [ROTs]Floor Market Makers effect Waivers of their entire entitlements ("Total Waivers"), the number of [ROTs]Floor Market Makers with whom the [Specialist]Lead Market Maker is deemed to be on parity for purposes of determining the Enhanced [Specialist]Lead Market Maker Participation shall be reduced by the number of [ROTs]Floor Market Makers effecting Total Waivers and the following additional Rules shall apply:
- (A) in the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with three or more [ROTs]Floor Market Makers, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(1) above, provided that the maximum number of contracts to be allocated to the

[Specialist]Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Rule, as if the [Specialist]Lead Market Maker had been on parity with three [ROTs]Floor Market Makers.

(B) in the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with two [ROTs]Floor Market Makers, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the maximum number of contracts to be allocated to the [Specialist]Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Rule as if the [Specialist]Lead Market Maker had been on parity with two [ROTs]Floor Market Makers.

(C) In the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the maximum number of contracts to be allocated to the [Specialist]Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Rule as if the [Specialist]Lead Market Maker had been on parity with one ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).

(3) *Partial Waiver.* In the case of an option which is subject to an Enhanced [Specialist]Lead Market Maker Participation, in the event that one or more [ROTs]Floor Market Makers effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the [Specialist]Lead Market Maker shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the [Specialist]Lead Market Maker being on parity with only one ROT, the [Specialist]Lead Market Maker shall not be entitled to receive a number of contracts that is greater than 60% of the Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.

In no event shall any non-waiving ROT be required participate in fewer contracts than he/she would have received absent the Partial Waiver(s).

(4) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant ( *i.e.*, subject to the provisions of sub-paragraph (C)(1)(ii) above, any decision by a crowd participant to

waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

- (D) *Rounding*. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.
- (E) *Just and Equitable Principles of Trade*. (i) It shall be considered conduct inconsistent with just and equitable principles of trade for a member: (a) to allocate initiating orders other than in accordance with this Rule; (b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.
- (ii) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.
- (F) Notwithstanding the first sentence of Options 8, Section 25(a)(1), neither Supplementary Material .02 to Options 8, Section 30[Rule 119(b) and (c)] concerning precedence based on the size of bids on parity, nor Supplementary Material .03 to Options 8, Section 30[Rule 120] (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by paragraph (c).
- (i) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System.
- a. in a trade involving a floor broker, the floor broker shall so do, provided that a floor broker may delegate this responsibility to the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the [Specialist's]Lead Market Maker's direct supervision) if the [Specialist]Lead Market Maker agrees to accept such responsibility, and, in the event of such delegation, the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the [Specialist's]Lead Market Maker direct supervision) shall do so:
- b. in all other cases where the [Specialist]Lead Market Maker is a participant (i.e., where there is no floor broker), the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the [Specialist's]Lead Market Maker's direct supervision) shall do so;

- c. in any other case (i.e., where there is no floor broker and no [Specialist]Lead Market Maker is involved), the largest on-floor participant shall do so (for example, where several [Registered Options Traders]Floor Market Makers are involved); and
- d. if there is only one seller and one buyer (no floor broker and no [Specialist]Lead Market Maker is involved), the seller shall do so (for example, where only two [Registered Options Traders]Floor Market Makers are involved), unless either the seller or the buyer is an RSQT, in which case the on-floor participant in the transaction shall do so.
- e. The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself by initiating the trade tickets. In the case of a trade executed using the Floor Based Management System the Allocating Participant shall allocate the trade using the Options Floor Based Management System.

(d) An ROT electing to engage in Exchange options transactions is designated as a [Specialist]Lead Market Maker on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him on the floor in his capacity as an ROT. For purposes of this commentary, the term "transactions initiated and effected on the floor" shall not include transactions initiated by an ROT off the floor, but which are considered "on-floor" pursuant to (d)(1) and (e) below. Similarly, an RSQT electing to engage in Exchange options transactions is designated as a [Specialist]Lead Market Maker on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

- (1) The term "on the Floor" means the Trading Floor of the Exchange; the rooms, lobbies, and other premises immediately adjacent thereto made available by the Exchange for use by members generally; other rooms, lobbies and premises made available by the Exchange primarily for use by members generally; and the telephone and other facilities in any such place. Further, the provisions of this Rule do not apply to transactions initiated by an ROT for an account in which he has an interest unless such transactions are either initiated by an ROT while on the Trading Floor or unless such transactions although originated off the Floor are deemed on-Floor transactions under the provisions of these Rules.

(e) An off-Floor order for an account in which a member has an interest is to be treated as an on-Floor order if it is executed by the member who initiated it. In addition to transactions originated on the Trading Floor by an ROT for an account in which he has an interest, the following transactions are considered on-Floor trading:

- (1) Any transaction for an account in which an ROT has an interest if such transaction is initiated off the Floor by such ROT after he has been on the Floor during the same day.
- (2) Any transaction for a member organization for an account in which it has an interest:
  - (A) which results from an order entered off the Floor following a conversation relating thereto with a member on the Floor who is a partner of or stockholder of such member organization; or
  - (B) which results from an order entered off the Floor following the unsolicited submission from the Floor to the office of a quotation in a stock or Exchange-Traded Fund Share and the size of the market by a member on the Floor who is a partner of or stockholder of such member organization; or
  - (C) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder of such member organization and who had handled the order on a "not-held" basis; provided, however, that the following are not on-Floor orders and such restrictions shall not apply to an order:
    - (i) to sell an option for an account in which the member organization is directly or indirectly interested if in facilitating the sale of a large block of stock or Exchange-Traded Fund Shares, the member organization acquired its position because the demand on the Floor was not sufficient to absorb the block at a particular price or prices; or
    - (ii) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the member or his member organization was invited to participate on the opposite side of a block transaction by another member, member organization or a partner or stockholder therein because the market on the Floor could not readily absorb the block at a particular price or prices; or
    - (iii) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the transaction is on the opposite side of a block order being executed by the member organization for the account of its customer and the transaction is made to facilitate the execution of such order; or
    - (iv) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder of such member organization and who has changed the terms of the order.
- (3) Any transaction for the account of an RSQT.

(f) Non-Electronic Orders.

- (1) In the event that a Floor Broker or [Specialist]Lead Market Maker presents a non-electronic order in which an RSQT is assigned or which is allocated to a Remote

[Specialist]Lead Market Maker, and/or in which an SQT assigned in such option is not a crowd participant, such Remote [Specialist]Lead Market Maker, SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant Remote [Specialist]Lead Market Maker, SQT and/or RSQT at the time of execution.

- (2) Notwithstanding the foregoing, respecting crossing, facilitation and solicited orders (as defined in Section 30) that are represented and executed in open outcry, priority shall be afforded to in-crowd participants (including, for purposes of this rule only, Floor Brokers), over Remote [Specialists]Lead Market Makers, RSQTs, out-of crowd SQTs, and out-of-crowd broker-dealer limit orders on the limit order book, but not over public customer orders. Such orders shall be allocated in accordance with Exchange Rules.
  - (3) The [Specialist]Lead Market Maker and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Options 8, Section 24(a)(ii).
  - (4) For purposes of this Rule, an SQT or Floor Market Maker shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific "Crowd Area." A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Exchange. An SQT or Floor Market Maker who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or Floor Market Maker fulfills the requirements set forth in this Rule. An SQT or Floor Market Maker shall be deemed to be participating in a single Crowd Area.
- (g) Orders given out by an ROT to commission brokers—An on-Floor order given by an ROT to a commission broker, for an account in which the ROT has an interest, is subject to all the Rules restricting [ROT's]Floor Market Makers. When an ROT gives out such an order on the Floor to another member, the order must be so marked to indicate that it is for an account in which the ROT has an interest, unless it is exempt from this Rule, in order that the other member may know whether it may be entitled to priority or parity.
- (h) Pair-offs before opening—An ROT cannot acquire a "long" option by pairing off with a sell order before the opening, unless all off-Floor bids at that price are filled.
- (i) The number of [ROT's]Floor Market Makers in a trading crowd who are establishing or increasing a position may temporarily be limited when, in the judgment of an Options Exchange Official, the interests of a fair and orderly market are served by such limitation.



(j) Within each quarter an ROT must execute in person, and not through the use of orders (except that non-streaming [ROTs]Floor Market Makers can use orders entered in person), a specified number of contracts, such number to be determined from time to time by the Exchange.

(k) An [ROT]Floor Market Maker may not initiate orders from off the floor as a market maker in reliance upon the market maker exemption contained in Section 11(a)(1) of the Securities Exchange Act of 1934.

(l) In the interest of fair and orderly markets, the Exchange may adopt policies affecting the location of members in the trading crowd on a crowd-by-crowd basis.

(m) Floor brokers are able to achieve split price priority in accordance with Options 8, Section 25(a)(2), provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Phlx member broker-dealer ("Phlx member BD") must ensure that the Phlx member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

## **Section 26. Trading Halts**

**(a) Manual Rotations.** Pursuant to the authority in [Rule 1047]Options 3, Section 9(b) and in accordance with the procedures enumerated in those commentaries, a manual trading rotation may be held on the opening in the event that the Exchange's System is not available, and a closing rotation may be held on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

(1) For purposes of this Rule, a trading rotation is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made. An Options Exchange Official may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market and shall specify, for each rotation so employed, the particular option contracts to be included and the sequence of such option contracts in the rotation. Trading rotations, which shall be conducted by the [Specialist]Lead Market Maker, shall be conducted in the following manner:

**(b) Opening Rotations.**—In the case of options on stocks or Exchange-Traded Fund Shares, the opening rotation in each class of options shall be held promptly following the opening of the underlying security on the primary market where it is traded. An underlying security shall be deemed to have opened on the primary market where it is traded if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening. In the case of options on foreign currencies, the opening rotation in each option shall be held promptly following the opening of trading. In either case, respecting openings conducted manually, the [Specialist]Lead Market Maker should proceed in the following manner: Taking each option in which he is assigned in

turn, the [Specialist]Lead Market Maker should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The [Specialist]Lead Market Maker shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions, except as provided below.

(c) **Modified Rotations**—(1) Modified rotations include reverse and shotgun rotations. A reverse rotation is an opening rotation where the [Specialist]Lead Market Maker should first open the one or more series of options of a given class having the most distant expiration, then proceed to the next nearest expiration, and so forth, ending with the nearest expiration, until all series have been opened. A shotgun rotation is an opening rotation in which each option series opens in the same manner and sequence as during a regular trading rotation stated above in paragraph (2), but is permitted to freely trade once all option series with the same expiration month have been opened.

(A) A reverse trading rotation must be employed in connection with openings and reopenings involving a heavy influx of orders, unless exempted by an Options Exchange Official.

(B) A second rotation requires the approval of an Options Exchange Official. In addition, a modified rotation may be employed in connection with delayed openings, halts or suspensions of options trading or other unusual market conditions, but in a different manner and sequence of trading than described above provided an Options Exchange Official determines that such procedure should be implemented.

(C) This [Commentary ]Supplementary Material .01(b) shall apply only to manual openings conducted in accordance with the [Commentary to Rule 1017]Options 3, Section 9.

(d) **Closing Rotations at Expiration**—On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last trading day prior to expiration with respect to expiring stock option contracts a closing rotation in each series of expiring options shall be commenced at 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by an Options Exchange Official, the [Specialist]Lead Market Maker may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where an Options Exchange Official, determines to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary

market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time

(e) **Quarterly Rotations**—On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

- (1) In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after the opening of business, or, in the event that current quotations for any underlying foreign currency are for any reason unavailable, the [Specialist]Lead Market Maker shall report such delay or unavailability to the Regulatory staff and the appropriate steps will be taken to determine the cause for such delay or unavailability. The opening of trading in such option shall be delayed until the underlying stock has opened or until current quotations for the underlying foreign currency become available, as the case may be, unless an Options Exchange Official, determines that the interests of a fair and orderly market are best served by opening trading in such options.
- (2) Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of an Options Exchange Official a trading rotation in any class of stock option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:
  - (i) Promptly after trading in the underlying security opens or re-opens, an opening or re-opening rotation in the corresponding options class is commenced; or
  - (ii) Such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor and the rotation does not commence until five minutes after the notice is disseminated.
  - (iii) If prior to 4:00 p.m. a trading rotation is in progress and an Options Exchange Official determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.

(f) **Index Options Trading after 4:00 P.M.:** With the prior approval of an Options Exchange Official, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided, in addition to [Rule 1047A]Options 4A, Section 18 such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor, and the rotation does not commence until five minutes after the notice is disseminated.

**Section 27. Quoting Obligations and Required Transactions**

(a) *No Continuous Electronic Quoting Obligation.* A Floor Market Maker will not be obligated to quote electronically in any designated percentage of series.

(b) *Continuous Open Outcry Quoting Obligation:* In response to any request for quote by a Floor Broker, [Specialist]Lead Market Maker, Options Exchange Official, or other ROT (including an SQT), Floor Market Makers must provide a two-sided market complying with the quote spread parameter requirements contained in [Rule 1014(c)(i)]paragraph (c)(1) below (in the case of equity options and U.S. dollar-settled FCOs). Such Floor Market Maker shall provide such quotations with a size of not less than 10 contracts.

(c) *In Classes of Option Contracts to Which Assigned—Affirmative Obligations.* With respect to classes of option contracts to which his assignment extends, a [Specialist]Lead Market Maker and an ROT, whenever the ROT (except an RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, are expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a [Specialist]Lead Market Maker and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) *Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar-settled Foreign Currency Options.*

(A) *Quote Spread Parameters (Bid/Ask Differentials)—*

(i) Options on equities (including Exchange-Traded Fund Shares) and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(ii) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than

\$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the prevailing bid is \$20.00 or more, provided that the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(d) *In Classes of Option Contracts Other Than Those Which Appointed.* With respect to classes of option contracts other than those to which his appointment extends, an ROT (other than an RSQT), whenever he enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a floor broker to make a market, shall undertake the obligations specified in paragraph (c) of this Rule. Furthermore, an ROT should not:

- (1) Effect purchases or sales on the Trading Floor of the Exchange except in a reasonable and orderly manner.

(e) Except in accordance with paragraphs (c) and (d), no ROT shall:

- (1) initiate an Exchange options transaction while on the Trading Floor for any account in which he has an interest and execute as Floor Broker an off-floor order in options on the same underlying interest during the same trading session, or
- (2) retain priority over an off-floor order while establishing or increasing a position for an account in which he has an interest while on the Trading Floor of the Exchange.

(f) A Floor Market Maker is required to trade either (a) 1,000 contracts and 300 transactions, or (b) 10,000 contracts and 100 transactions, on the Exchange each quarter. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

- (1) In addition, in order for an ROT (other than an RSQT or a Remote [Specialist]Lead Market Maker) to receive [Specialist]Lead Market Maker margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming [ROTs]Floor Market Makers can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

## **Section 28. Responsibilities of Floor Brokers**

(a) *General Responsibility.* A Floor Broker handling an order is to use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange. An Options Floor Broker shall ascertain that at least one [Registered Options Trader]Floor Market Maker is present at the trading post prior to representing an order for

execution. This paragraph (a) shall not apply to a Floor Broker in any foreign currency option if no [Registered Options Trader]Floor Market Maker registered in such foreign currency option is present on the Exchange's trading floor at that time.

(b) *Contingency order.* An Options Floor Broker handling a contingency order that is dependent upon the price of the underlying security shall be responsible for satisfying the dependency requirement on the basis of the last reported price of the underlying security in the primary market that is generally available on the Options Floor at any given time. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such reported price is subsequently found to have been erroneous.

(c) *Combination orders at the opening or close.* A Floor Broker shall not be held responsible for the execution of a single order combining different series of options based upon transaction prices that are established at the opening or close of trading or during any trading rotation.

(d) *Orders for [Registered Options Traders]Floor Market Makers.* An Options Floor Broker must inform the crowd when he is representing an order for a [Registered Options Trader]Floor Market Maker and must comply with Options 8, Section 25 (d)(1), (h), (i) and (j).

(e)(1) *Options Floor Based Management System.* In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080(a)(i)(C)). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., Public Customer, firm, broker-dealer, Professional) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Option 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(2) Pursuant to Options 8, Section 22, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Floor Brokers execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(3), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(3) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(4) Execution. FBMS is designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Options 8, Sections 24 and 25 and 1084.

(5) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Floor Brokers as set forth sub-paragraph (i) below.

(f) Floor Brokers or their employees shall enter the required information (as described in paragraph (e) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

(g) A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

(h) Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a Public Customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/offering on behalf of the order or submitting the order for execution. The Floor Broker or his employees must make the appropriate notation on the Options Floor Based

Management System when it has been determined that the order is for an account of a broker/dealer.

(i) The Snapshot feature of FBMS records the market prevailing at the time the Snapshot is triggered. It records all information required to determine compliance with priority and trade-through requirements, including the following: (1) Away Best Bid and Offer; (2) the Exchange Best Bid and Offer; (3) Public Customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.

(1) Availability.

(A) A member is permitted to trigger the Snapshot feature only at the time he or she provisionally executes a trade in the trading crowd. For purposes of this provision, provisional execution occurs when either: (1) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade; or (2) a member announces that he is crossing an order in accordance with Options 8, Section 30(a).

(B) A member is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

(C) A member may have only one Snapshot outstanding across all options classes and series at a given time.

(D) Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

(2) Snapshot Timer. After triggering the Snapshot feature, the member will have no more than 30 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the member fails to submit a provisionally executed trade along with the Snapshot within 30 seconds after triggering the Snapshot.

(3) Verification. After the member submits the provisionally executed trade along with the Snapshot, the System then determines whether the terms of the provisionally executed trade submitted by the member is consistent with applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot.

(A) If the provisionally executed trade submitted with the Snapshot is consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will report the trade to the Consolidated Tape.

(B) If the provisionally executed trade is not consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will reject the trade.



(C) If an order exists on the Exchange's limit order book that has priority at the time when a member seeks to take a Snapshot, the System will not prevent the member from taking a Snapshot, but the member must clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before submitting the provisionally executed trade to the System or else the System will reject the trade upon submission.

(4) Taking a New Snapshot

(A) A member may take a new Snapshot and trigger a new 30-second timer provided that the member first re-announces and provisionally re-executes the trade in the crowd, as described in paragraphs (1) through (3) above, if: (i) the Snapshot expired before the member submitted a provisional execution to the Trading System; (ii) the Trading System rejected a provisional execution that is subject to a Snapshot; or (iii) the member affirmatively canceled a Snapshot or permitted it to expire in anticipation of the Trading System rejecting the provisional execution that is subject to it.

**Section 29. Use of Floor Based Management System by [Registered Options Traders]Floor Market Makers and [Specialists]Lead Market Makers**

(a) *Options Floor Based Management System.* In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders negotiated by [Registered Options Traders]Floor Market Makers and [Specialists]Lead Market Makers on the Exchange's Options Floor, a [Registered Options Trader]Floor Market Maker, a [Specialist]Lead Market Maker, or their respective employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule [1080, Commentary .06]1080(a)(i)(C)). The following specific information with respect to orders negotiated by a [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker shall be recorded by such [Registered Options Trader]Floor Market Maker, [Specialist]Lead Market Maker, or their respective employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or [m]Market [o]Order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, a [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. [Registered Options Traders]Floor Market Makers, [Specialists]Lead Market Makers, or their employees shall ensure the required information that is recorded on such trade tickets is

entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(b) Pursuant to Options 8, Section 22(a), [Registered Options Traders]Floor Market Makers and [Specialists]Lead Market Makers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that [Registered Options Traders]Floor Market Makers or [Specialists]Lead Market Makers execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(2), [Registered Options Traders]Floor Market Makers or [Specialists]Lead Market Makers shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. [Registered Options Traders]Floor Market Makers, [Specialists]Lead Market Makers, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(c) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(d) Execution. FBMS is designed to execute orders entered by [Registered Options Traders]Floor Market Makers or [Specialists]Lead Market Makers, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options trader or [Specialist]Lead Market Maker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced in an Options Trader Alert, after which it will be returned to the [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker on the FBMS. The [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. [Registered Options Traders]Floor Market Makers and [Specialists]Lead Market Makers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Options 5, Section 2, Options 8, Section 27, [Rules 1014, ]and Options 8, Section 33 [and 1084].

(e) Snapshot Feature. The Snapshot feature of FBMS may be utilized by [Floor Market Makers]Floor Market Makers and [Specialists]Lead Market Makers as set forth in [Rule ]Options 8, Section 28(i).

(f) [Registered Options Traders]Floor Market Makers, [Specialists]Lead Market Makers or their employees shall enter the required information (as described in paragraph (a) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. [Registered Options Traders]Floor Market Makers,

[Specialists]Lead Market Makers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

(g) A [Registered Options Trader]Floor Market Maker or [Specialist]Lead Market Maker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

### **Section 30. Crossing, Facilitation and Solicited Orders**

(a) *Crossing*. Except as provided in paragraph (e) below, an Options Floor Broker who holds orders to buy and sell the same option series may cross such orders, provided that he proceeds in the following manner:

- (1) In accordance with his responsibilities for due diligence, pursuant to Options 8, Section 18, an Options Floor Broker shall request bids and offers for such options series and make all persons in the trading crowd aware of his request.
- (2) After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.
- (3) If such higher bid or lower offer is not taken, he may cross the orders at such higher bid or lower offer by announcing by public outcry that he is crossing and giving the quantity and price. All such orders are not deemed executed until entered into and executed through the Options Floor Based Management System ("FBMS"), except for where there is a provisional execution using the Snapshot feature of FBMS (as described in Options 8, Section 28(i); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).
- (4) A Floor Broker crossing a Public Customer order with an order that is not a Public Customer order, when providing for a reasonable opportunity for the trading crowd to participate in the transaction, shall disclose the Public Customer order that is subject to crossing prior to the execution of the order.

(b) *Facilitation Orders*. Except as provided in paragraph (e) below, a Floor Broker holding an options order for a Public Customer and a contra-side order may cross such orders in accordance with paragraph (a) above or may execute such orders as a facilitation cross in the following manner:

- (1) The Floor Broker or his employees must enter the appropriate notation onto the Options Floor Based Management System for the Public Customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities.

- (2) The Floor Broker shall request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker shall announce that he holds an order subject to facilitation and shall bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.
- (3) After all market participants in the crowd are given a reasonable opportunity to accept all terms and conditions made on behalf of the Public Customer whose order is subject to facilitation, the Floor Broker may immediately thereafter cross all or any remaining part of such order and the facilitation order at each Public Customer's bid or offer by announcing by public outcry that he is crossing and by stating the quantity and price(s). All such orders are not deemed executed until entered into and executed through the Options Floor Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

Once a Floor Broker has announced an order as subject to facilitation and has established a bid (or offer) in between the market for the option(s) to be facilitated, the order cannot be broken up by a subsequent superior bid or offer for just one component to the facilitated order.

(c) *Solicited Orders.* Except as provided in paragraph (e) below, for the purpose of this Rule, a solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interests to trade by one broker dealer to another.

- (1) If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.
- (2) A member or member organization representing an order in options ("originating order") may solicit another member, member organization or nonmember broker-dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided that the member or member organization representing the originating order, upon entering the trading crowd must:
  - (A) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;
  - (B) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and
  - (C) give the trading crowd a reasonable opportunity to accept the bid or offer. All such orders are not deemed executed until entered into and executed through the Options

Floor Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

- (3) The Floor Broker or his employees must note on the Options Floor Based Management System that the trade involves a solicited order. The members of the trading crowd shall have priority over the solicited party order.

(d) *Anticipatory Hedging*. No member organization or person associated with a member or member organization who has knowledge of the material terms and conditions of a solicited order, an order being facilitated, or orders being crossed, the execution of which are imminent, shall enter, based on such knowledge, an order to buy or sell an option for the same underlying security; an order to buy or sell the security underlying such class; or an order to buy or sell any related instrument until (i) or (ii) occur:

- (1) the terms and conditions of the order and any changes in the terms of the order of which the member, member organization or person associated with a member or member organization has knowledge are disclosed to the trading crowd, or
- (2) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. For purposes of this Rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.
- (3) Furthermore, paragraph (d) does not prohibit a member or member organization from buying or selling a stock, security futures or futures position following receipt of an option order, including a complex order, but prior to announcing such order to the trading crowd, provided that:
  - (A) the option order is in a class designated as eligible for "tied hedge" transactions (as described below) as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be determined by the Exchange and may not be smaller than 500 contracts per order, except that options on the Nasdaq 100® Index including options with nonstandard expiration dates ("NDX" and "NDXP") may not be smaller than 50 contracts per order (there shall be no aggregation of multiple orders to satisfy the size parameter);
  - (B) such member or member organization shall create an electronic record that it is engaging in a tied hedge transaction in a form and manner prescribed by the Exchange;
  - (C) such hedging position is:
    - (i) comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the

option order or, in reference to an index, ETF or HOLDR option, a related instrument. A "related instrument" means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A "related instrument" means, in reference to an ETF or HOLDR option, a futures contract on any economically equivalent index applicable to the ETF or HOLDR underlying the option order;

- (ii) brought without undue delay to the trading crowd and announced concurrently with the option order;
  - (iii) offered to the trading crowd in its entirety; and
  - (iv) offered, at the execution price received by the member or member organization introducing the option, to any in-crowd market participant who has established parity or priority for the related options;
- (D) the hedging position does not exceed the option order on a delta basis;
- (E) all tied hedge transactions (regardless of whether the option order is a simple or complex order) are treated the same as complex orders for purposes of the Exchange's open outcry allocation and reporting procedures. Tied hedge transactions are subject to the existing NBBO trade-through requirements for options and stock, as applicable, and may qualify for various exceptions; however, when the option order is a simple order the execution of the option leg of a tied hedge transaction does not qualify it for any NBBO trade-through exception for a Complex Trade;
- (F) in-crowd market participants that participate in the option transaction must also participate in the hedging position and may not prevent the option transaction from occurring by giving a competing bid or offer for one component of such order; and
- (G) prior to entering tied hedge orders on behalf of Public Customers, the member or member organization must deliver to the Public Customer a written notification informing the Public Customer that his order may be executed using the Exchange's tied hedge procedures. The written notification must disclose the terms and conditions contained herein and be in a form approved by the Exchange. A combination option and hedging position offered in reliance on this provision shall be referred to as a "tied hedge" order.
- (H) if at the time a tied hedge transaction is executed, market conditions in any non-Phlx market(s) prevent the execution of the non-options leg(s) at the price(s) agreed upon, the trade representing the options leg(s) of the tied hedge transaction may be cancelled at the request of any member that is a party to the trade.

(I) All such orders are not deemed executed until entered into and executed by the Options Floor Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

(e) *Floor Qualified Contingent Cross*. A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

(1) Floor Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Options Floor Broker provided that (i) no Public Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO.

(a) Floor Qualified Contingent Cross Orders shall be submitted into the System by Floor Brokers on the Floor via the Floor Based Management System.

(b) Floor Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.

(c) Floor Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under [Rule 1034]Options 3, Section 3.

(2) Options Floor Brokers shall not enter Floor Qualified Contingent Cross Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion. Options Floor Brokers must maintain books and records demonstrating that each Floor Qualified Contingent Cross Order was not entered for a prohibited account. Any Floor Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered for a prohibited account in violation of this Rule.

(3) The term "qualified contingent trade" shall have the same meaning set forth in Rule [1088(a)(3)]Options 3, Section 12(a)(3).

[••• *Commentary*: -----]Supplementary Material to Options 8, Section 30

.01 A violation of this Rule may be considered conduct inconsistent with just and equitable principles of trade.

.02 *Firm Participation Guarantees*. (i) Notwithstanding the provisions of paragraphs (a) and (b) of this Rule, when a Floor Broker holds an equity, index or U.S. dollar-settled foreign currency option order of the eligible order size or greater ("original order"), the Floor Broker is entitled to cross a certain percentage of the original order with other orders that he is holding or in the case of a Public Customer order, with a facilitation order of the originating firm (i.e., the firm from which the original Public Customer order originated).

(ii) The Exchange may determine, on an option by option basis, the eligible size for an order that may be transacted pursuant to this [Commentary ]Supplementary Material, however, the eligible order size may not be less than 50 contracts. Orders for less than 50 contracts may be crossed pursuant to this Rule but are not subject to subsection (iii) below pertaining to participation guarantees. In accordance with his responsibilities for due diligence, a Floor Broker representing an order of the eligible order size or greater which he wishes to cross shall request bids and offers for such option series and make all persons in the trading crowd aware of his request. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg alone which is for the eligible order size or greater. If the same member organization is the originating firm and also the [Specialist]Lead Market Maker for the particular class of options to which the order relates, then the [Specialist]Lead Market Maker is not entitled to any Enhanced [Specialist]Lead Market Maker Participation with respect to the particular cross transaction.

(iii) The percentage of the order which a Floor Broker is entitled to cross in equity, index and U.S dollar settled foreign currency options, after all Public Customer orders that were (1) on the limit order book and then (2) represented in the trading crowd at the time the market was established have been satisfied, is 40% of the remaining contracts in the order if the order is traded at or between the best bid or offer given by the crowd in response to the Floor Broker's initial request for a market.

(iv) When crossing an order pursuant to this [Commentary ]Supplementary Material, a Floor Broker must disclose on its order ticket for any order which is subject to crossing, all of the terms of such order, including any contingency involving, and all related transactions in, either options or, in the case of equity or index options, underlying or related securities. The Floor Broker, in the case of equity or index options, must disclose all securities that are components of the Public Customer order which is subject to crossing before requesting bids and offers for the execution of all components of the order.

(v) Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

(vi) If a trade pursuant to this [Commentary ]Supplementary Material occurs when the [Specialist]Lead Market Maker is on parity with one or more controlled accounts, then the Enhanced [Specialist]Lead Market Maker Participation which is established pursuant to Options 8, Section 25(b) shall apply only to the number of contracts remaining after the following orders have been satisfied: those Public Customer orders which trade ahead of the cross transaction, and any portion of an order being crossed against the original order being represented by the Floor Broker.



(A) The [Specialist]Lead Market Maker shall not be entitled to receive the Enhanced [Specialist]Lead Market Maker Participation in equity, index and U.S dollar settled foreign currency options after Public Customer orders have been executed for orders crossed pursuant to this paragraph (vi) unless the Floor Broker has chosen to cross less than its 40% entitlement, in which case the Enhanced [Specialist]Lead Market Maker Participation will be a percentage that combined with the percentage the firm crossed is no more than 40% of the original order.

If the trade occurs at a price other than the [Specialist]Lead Market Maker 's disseminated bid or offer, the [Specialist]Lead Market Maker is entitled to no guaranteed participation.

(vii) The members of the trading crowd who established the market will have priority over all other orders that were not represented in the trading crowd at the time that the market was established (but not over Public Customer orders on the book) and will maintain priority over such orders except for orders that improve upon the market. A Floor Broker who is holding a Public Customer order and either a facilitation or solicited order and who makes a request for a market will be deemed to be representing both the Public Customer order and either the facilitation order or solicited order, so that the Public Customer order and the facilitation order or solicited order will also have priority over all other orders that were not being represented in the trading crowd at the time the market was established.

(viii) Nothing in this paragraph is intended to prohibit a Floor Broker or a [Specialist]Lead Market Maker from trading more than their percentage entitlements if the other members of the trading crowd do not choose to trade the remaining portion of the order.

(ix) A Floor Broker may not cross an order that he is holding with an order from a [Registered Options Trader]Floor Market Maker that is then in the trading crowd.

(x) Spread, straddle, combination or hedge orders, as defined in Options 8, Section 32, on opposite sides of the market may be crossed, provided that the Floor Broker holding such orders proceeds in the manner described in paragraphs (a) or (b) of this Rule as appropriate. Members may not prevent a spread, straddle, stock-option, or combination cross from being completed by giving a competing bid or offer for one component of such order. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg which, standing alone, is for the eligible order size or greater.

.03 Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders. All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders, except that an incoming Floor QCC Order with a size greater than or equal to the size of a resting Public Customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

### Section 31. Discretionary Transactions

(a) No Floor Broker shall execute or cause to be executed any order or orders on this Exchange with respect to which such Floor Broker is vested with discretion as to: (i) the choice of the class of options to be bought or sold, (ii) the number of contracts to be bought or sold, or (iii) whether any such transaction shall be one of purchase or sale. However, the provisions of this Rule shall not apply to any discretionary transaction executed by a [Registered Options Trader]Floor Market Maker for an account in which he has an interest.

(b) No Options Floor Broker shall hold a "not held" [m]Market [o]Order to buy and a "not held" [m]Market [o]Order to sell (or orders which have the effect of such "not held" [m]Market [o]Order to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Also no Floor Broker shall leg a combination order for a [Registered Options Trader]Floor Market Maker or accept opening or discretionary orders for a [Registered Options Trader]Floor Market Maker who is associated with the same member organization as such Floor Broker or who is associated with another member organization [which is pursuant to Exchange Rule 793] affiliated with the same member organization as such Floor Broker. Holding or accepting such orders can be interpreted as allowing the Floor Broker discretion respecting whether to purchase or sell such options.

(c) An Options Floor Broker may not exercise any discretion with respect to the order of a ROT or the order of an options market maker registered on another exchange.

### Section 32. Certain Types of Floor-Based (Non-System) Orders Defined

(a) These order types are eligible for entry by a member for execution through the Options Floor Based Management System ("FBMS").

(1) **Market Order.** A [m]Market [o]Order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

(2) **Limit Order.** A [l]Limit [o]Order is an order to buy or sell a stated number of option contracts at a specified price, or better.

(b) **Contingency Order.** A contingency order is a [l]Limit or [m]Market [o]Order to buy or sell that is contingent upon a condition being satisfied while the order is at the post.

(1) **Stop-Limit Order.** A [s]Stop-[l]Limit [o]Order is a contingency order to buy or sell at a limited price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A [s]Stop-[l]Limit [o]Order to buy becomes a [l]Limit [o]Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A [s]Stop-[l]Limit [o]Order to sell becomes a [l]Limit [o]Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

(2) **Stop (stop-loss) Order.** A [s]Stop [o]Order is a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified

price. A [s]Stop [o]Order to buy becomes a [m]Market [o]Order when the option contract trades or is bid on the Exchange at or above the stop price. A [s]Stop [o]Order to sell becomes a [m]Market [o]Order when the option contract trades or is offered on the Exchange at or below the stop price.

Notwithstanding the foregoing, a [s]Stop or [s]Stop-[l]Limit [o]Order shall not be elected by a trade that is reported late or out of sequence.

(3) **All or None Order.** An All-or-None [o]Order is a [m]Market or [l]Limit [o]Order which is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met.

(4) **Cancel-Replacement Order.** A [c]Cancel-[r]Replacement [o]Order is a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety the replacement order is automatically canceled or reduced by such number.

(c) **Time in Force** or “**TIF.**” The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) **Immediate or Cancel Order.** An [i]Immediate-or-[c]Cancel (“IOC”) order is a [l]Limit [o]Order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.

(2) **Day.** If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(3) **Good Til Cancelled.** A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

(d) **Not Held Order.** A not held order is an order marked "not held", "take time" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.

(e) **Floor Qualified Contingent Cross Order** or **Floor QCC Order.** A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000

contracts, as provided in [Rule 1064]Options 8, Section 30(e), that is identified as being part of a qualified contingent trade, as that term is defined in subsection [Rule 1064]Options 8, Section 30(e)(3), coupled with a contra-side order or orders totaling an equal number of contracts.

(f) **Multi-leg Orders.** A [m]Multi-[l]Leg [o]Order is any spread type order (including a [s]Spread, [s]Straddle and [c]Combination [o]Order) for the same account or [t]Tied [h]Hedge [o]Order as defined below:

(1) **Spread Order.** A [s]Spread [o]Order is an order to buy a stated number of option contracts and to sell a stated number of option contracts in a different series of the same option and may be bid for or offered on a total net debit or credit basis.

(2) **Straddle Order.** A [s]Straddle [o]Order is an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency) and having the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency) and having the same exercise price and expiration date (e.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts is a straddle order). In the case of adjusted stock option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.

(3) **Combination Order.** A [c]Combination [o]Order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same number of foreign currency units (if the underlying security is a foreign currency). A [c]Combination [o]Order includes a conversion (generally, buying a put, selling a call and buying the underlying stock or Exchange-Traded Fund Share) and a reversal (generally, selling a put, buying a call and selling the underlying stock or Exchange-Traded Fund Share). In the case of adjusted option contracts, a [c]Combination [o]Order need not consist of the same number of shares at option.

(4) **Tied Hedge Order.** A [t]Tied [h]Hedge [o]Order is an option order that is tied to a hedge transaction as defined in Options 8, Section 30(d)(3)(A), following the receipt of an option order in a class determined by the Exchange as eligible for "tied hedge" transactions.

(5) **Synthetic Option.** A [s]Synthetic [option] [o]Order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the

underlying stock or convertible security or the number of units of the underlying stock or convertible security necessary to create a delta neutral position, or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock as, and on the opposite side of the market from, the stock or convertible security portion of the order.

(6) **Spread Type Order.**[-] A [s]Spread [t]Type [o]Order is a [m]Multi-[l]Leg [o]Order submitted through the Floor Based Management System ("FBMS") involving the simultaneous purchase and/or sale of two or more different options series (up to 15) in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A [s]Spread [t]Type [o]Order may include as one of the legs a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

(7) **Complex Order.** A Complex Order is a [m]Multi-[l]Leg order that meets the definition of Complex Order in [Rule 1098]Options 3, Section 16(a)(i).

(8) **DNA Order.** A DNA Order is an order submitted through FBMS that meets the definition of DNA Order in Rule [1098]Options 3, Section 16(a)(viii).

(g) **Routing order types.** In the System, the following order types will be available and governed by [Rule 1093]Options 5, Section 4: DNR (do not route), FIND and SRCH.

(h) For options on foreign currencies, a multi-spread transaction consisting of spread, straddle or combination orders may be executed. A multi-spread transaction combines any two spread type orders for the same account as defined in Options 8, Section 32(e), a permissible multi-spread transaction combines any of the following: a two-way transaction with another two-way transaction of the same spread type; a three-way transaction with another three-way transaction of the same spread type; or a two-way transaction with a three-way transaction of the same spread type. In addition, a multi-spread transaction includes the combination of a spread type order with a ratio spread type order. The ratio between the spread type order and the ratio spread type order comprising the multi-spread transaction may range from one-to-one to three-to-one, which will be determined by the Exchange.

### Section 33. Accommodation Transactions

(a) A "cabinet order" is a closing limit order at a price of \$1 per option contract for the account of a Public Customer, firm, [Specialist]Lead Market Maker or ROT. An opening order is not a "cabinet order" but may in certain cases be matched with a cabinet order pursuant to subsection (a)(iii) below. Only Floor Brokers may represent cabinet orders. Cabinet trading shall be available for each series of options open for trading on the Exchange under the following terms and conditions:

- (1) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein or unless the context otherwise requires.
- (2) Cabinet orders may be submitted to Floor Brokers and represented by them in the designated trading crowd of the option class. Floor Brokers must use the designated cabinet transaction forms provided by the Exchange to document receipt of a cabinet order and the execution of a cabinet transaction. Options 8, Section 29(e)(i) shall not apply to cabinet orders.
- (3) (A) *Floor Broker Holds the Cabinet Order Only.* If a Floor Broker holds a cabinet order but does not hold contra-side interest, he shall follow the procedures set forth in this subsection (3)(A). In the trading crowd, and in the presence of at least one market maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd to solicit interest to participate on the closing position. All matching cabinet orders shall be assigned priority based upon the sequence in which such orders are received by the Floor Broker. If there is no matching cabinet order, the Floor Broker may match the cabinet order with a matching opening buy or sell limit order priced at \$1 per option contract. If there is no matching cabinet order or opening order, the Floor Broker may seek matching bids or offers for accounts of [Specialists]Lead Market Makers and [ROT's]Floor Market Makers. [Specialists]Lead Market Makers and [ROT's]Floor Market Makers can only participate after all other orders have been matched.
- (B) *Floor Broker Holds the Cabinet Order and also a Contra-Side Cabinet Order.* If the Floor Broker holds a cabinet order as well as contra-side cabinet order, the Floor Broker shall follow the procedures set forth in this subsection (3)(B). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet orders to the trading crowd. The cabinet orders shall then be immediately crossed by the Floor Broker.
- (C) *Floor Broker Holds Cabinet Order and a Contra-Side Opening Order.* If the Floor Broker holds a cabinet order as well as contra-side opening order, the Floor Broker shall follow the procedures set forth in this subsection (3)(C). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd. If there is a matching cabinet order, the Floor Broker shall match the two cabinet orders. If there is no matching cabinet order, the cabinet order shall then be immediately crossed by the Floor Broker with the opening order held by the Floor Broker.
- (4) Once the cabinet order has been either crossed or matched, the Floor Broker shall submit the designated cabinet form to the Nasdaq Market Operations staff for clearance and reporting at the close of the business day.
- (5) [Specialists]Lead Market Makers and [ROT's]Floor Market Makers shall not be subject to the requirements of Options 8, Section 25 in respect of orders placed pursuant to this

Rule. The provisions of Options 8 Section 24(b) and (c) and [Rule 1034]Options 3, Section 3 shall not apply to orders placed in the cabinet. Cabinet transactions shall not be reported on the ticker.

(b) Any (i) member, or (ii) other person who is a non-member broker or dealer and who directly or indirectly controls, is controlled by, or is under common control with, a member (any such other person being referred to as an affiliated person) may effect any transaction as principal in the over-the-counter market in any class of option contracts listed on the Exchange for a premium not in excess of \$1.00 per contract.

(c) For each transaction executed by a member or affiliated person pursuant to paragraph (b) a record of such transaction shall be maintained by the member and shall be available for inspection by the Exchange for a period of three years. Such record shall include the circumstances under which the transaction was executed in conformity with this Rule.

(d) **Limit Orders Priced Below \$1:** Limit orders with a price of at least \$0 but less than \$1 per option contract may trade under the terms and conditions in Options 8, Section 33 above in each series of option contracts open for trading on the Exchange, except that:

- (1) Bids and offers for opening transactions are only permitted to accommodate closing transactions.
- (2) These procedures are available for trading in all options classes trading on the Exchange, including options classes participating in the Penny Pilot Program.
- (3) Transactions shall be reported for clearing utilizing forms, formats and procedures established by the Exchange.

(e) Pursuant to Options 8, Section 34(h), open FLEX option positions are eligible to be closed in accordance with this Options 8, Section 33 at the minimum increments specified herein. The FLEX option cabinet order may be executed against contra-side interest which closes a FLEX option position or, to the extent permitted under Options 8, Section 33[Rule 1059](a)(iii), against contra-side interest which opens a FLEX option position. Sections (b) and (c) of [Rule ]Options 8, Section 34 shall not apply to FLEX option transactions executed pursuant to Options 8, Section 34(h), and Options 8, Section 33. However, Sections (d) - (h) of Options 8, Section 34 shall apply to any FLEX option position opened pursuant to Options 8, Section 33.

### **Section 34. FLEX Index, Equity and Currency Options**

(a) A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the Rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange Rules, this Rule takes precedence with respect to FLEX options.

(b) **Characteristics:**

- (1) Underlying interest —
  - (A) any index upon which options currently trade on the Exchange. The applicable index multiplier shall be the same multiplier, in the case of U.S. dollar-denominated FLEX index options, that applies to non-FLEX index options on the same underlying index;
  - (B) any security which is options-eligible pursuant to [Rule 1009]Options 4, Section 3; or
  - (C) any foreign currency which is options-eligible pursuant to [Rule 1009]Options 4, Section 3 and which underlies non-FLEX U.S. dollar-settled foreign currency options that are trading on the Exchange.
- (2) Type—put, call or hedge order (as defined in Options 8, Section 32).
- (3) Exercise price—
  - (A) with respect to FLEX index options, may be specified in terms of a specific index value number, a percentage of the index value calculated as of the open or close of trading on the Exchange on the trade date, or a method for fixing such number;
  - (B) with respect to FLEX equity options, may be specified in terms of a specific dollar amount rounded to the nearest \$.10 or a percentage of the underlying security rounded to the nearest minimum increment; or
  - (C) with respect to FLEX currency options, may be specified in terms of a specific dollar amount rounded to the nearest hundredth of a dollar.
- (4) Quote format—
  - (A) in the case of FLEX index options and equity options, a bid and/or offer in the form of a decimal price (*e.g.* .10 or .25), pursuant to [Rule 1034]Options 3, Section 3, a specific dollar amount, or a percentage of the underlying equivalent value, in the case of FLEX index options, or security, in the case of FLEX equity options, rounded to the nearest minimum increment; or
  - (B) in the case of FLEX currency options, in the form of dollars per unit of underlying foreign currency in the minimum increments set forth for U.S. dollar settled foreign currency options in [Rule 1034]Options 3, Section 3(a).
- (5) Exercise style—American or European in the case of FLEX index options and FLEX equity options, and European only in the case of FLEX U. S. dollar-settled foreign currency options;
- (6) Expiration date—



- (A) any month, business day and year within five years for FLEX index options and within three years for FLEX currency options, except that (i) a FLEX index option that expires on or within two business days prior or subsequent to a third Friday-of-the-month expiration day for a non-FLEX option (except quarterly expiring index options) or underlying currency may only have an exercise settlement value on the expiration date determined by reference to the reported level of the index as derived from the opening prices of the component securities ("a.m. settlement") and (ii) all FLEX currency options will expire at 11:59 p.m. eastern time on their designated expiration date; or
- (B) any month, business day and year within three years for FLEX equity options, provided, however, that a Requesting Member may request a longer term to a maximum of five years, and upon the assessment of the Regulatory staff that sufficient liquidity exists among FLEX equity participants, such request may be granted. Regulatory staff are Exchange employees responsible for, among other things, assessing that sufficient liquidity exists among FLEX equity participants requesting a term exceeding three years to a maximum of five years. The Exchange may also designate other qualified Exchange employees to assist the Regulatory staff as the need arises.
- (C) Provided the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX options shall be permitted in puts and calls that do not have the same exercise style, same expiration date and same exercise price as non-FLEX options that are already available for trading on the same underlying security or index. FLEX options shall also be permitted before the options are listed for trading as non-FLEX options. Once and if the option series are listed for trading as non-FLEX options, then (i) all existing open positions established under the FLEX trading procedures shall be fully fungible with transactions in the respective non-FLEX option series, and (ii) any further trading in the series would be as non-FLEX options subject to the non-FLEX trading procedures and Rules. However, in the event the Non-FLEX series is added intra-day, a position established under the FLEX trading procedures would be permitted to be closed using the FLEX trading procedures for the balance of the trading day on which the Non-FLEX series is added against another closing only FLEX position. For such FLEX series, the Exchange will make an announcement that the FLEX series is now restricted to closing transactions; a FLEX Request for Quotes ("RFQ") may not be disseminated for any order representing a FLEX series having the same terms as a Non-FLEX series, unless such FLEX Order is a closing order (and it is the day the Non-FLEX series has been added); and only responses that close out an existing FLEX position are permitted. Any transactions in a restricted series that occur that do not conform to these requirements will be nullified by the Exchange.
- (7) Requesting quotes—to request a quote in FLEX options, an RFQ shall be submitted pursuant to paragraph (c) of this Rule;
- (8) Minimum size—

- (A) **Opening**—If there is no open interest in the particular series when an RFQ is submitted, the minimum size of an RFQ is:
- (i) One contract in the case of FLEX market index options, and one contract in the case of FLEX industry index options;
  - (ii) One contract in the case of FLEX equity options; and
  - (iii) 50 contracts in the case of FLEX currency options.
- (B) **Opened**—If there is open interest, the minimum size of an RFQ is:
- (i) respecting FLEX index options, \$1 million underlying equivalent value, or the remaining size on a closing transaction, whichever is less;
  - (ii) respecting FLEX equity options, the lesser of 100 contracts or the number of contracts overlying \$1 million of the underlying securities in the case of an opening transaction, or 25 contracts or the remaining size in the case of a closing transaction, whichever is less; or
  - (iii) respecting FLEX currency options, 25 contracts, or the remaining size on a closing transaction, whichever is less.
- (C) **Responsive**—The minimum value size for a responsive quote, other than an assigned ROT or assigned [Specialist]Lead Market Maker, is (includes non-assigned [ROT's]Floor Market Makers and a non-assigned [Specialist]Lead Market Maker):
- (i) respecting FLEX index options, \$1 million underlying equivalent value respecting index options, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned [Specialist]Lead Market Maker are required to respond with at least \$10 million underlying equivalent value respecting FLEX market index options, and \$5 million underlying equivalent value respecting FLEX industry index options or Alpha Index options, or the size amount requested in the RFQ, whichever is less;
  - (ii) respecting FLEX equity options, 25 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned [Specialist]Lead Market Maker are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less; or
  - (iii) respecting FLEX currency options, 50 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned [Specialist]Lead Market Maker are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less.

(D) "Underlying equivalent value" means the aggregate value of a FLEX index option (index multiplier times the current index value) multiplied by the number of FLEX index options.

(9) Settlement

(A) respecting FLEX index options, the settlement value may be specified as the index value reported at the: (i) close (P.M.-settled); (ii) opening (A.M.-settled) of trading on the Exchange, or (iii) as an average over a specified period of time, within parameters established by the Exchange. American style index options exercised prior to the expiration date can only settle based on the closing value on the exercise date. FLEX index options are settled in U.S. dollars; or

(B) The settlement value for FLEX options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona shall be the Exchange Spot Price at 12:00:00 Eastern Time (noon) on expiration day, unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances. FLEX currency options are settled in U.S. dollars. FLEX currency options will cease trading at 10:15 a.m. eastern time on their designated expiration date.

(10) Requesting Member—a member of the Exchange qualified to trade FLEX options pursuant to paragraph (d) of this Rule who initiates an RFQ for a FLEX option.

(11) Request for Quotes—the term "Request for Quotes" means the initial request supplied by a Requesting Member to initiate FLEX bidding and offering.

(12) Request Response Time—the term "Request Response Time" means the minimum period of time established by the Exchange, during which Exchange members participating in FLEX options may provide FLEX Quotes in response to a Request for Quotes.

(13) FLEX Quote - the term "FLEX Quote" means (i) FLEX bids and offers entered by [Specialists]Lead Market Makers and [Registered Options Traders]Floor Market Makers and (ii) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

(14) BBO—the term "BBO" means the best bid or offer, or both, as applicable, entered in response to a Request for Quotes.

(15) BBO Improvement Interval—the term "BBO Improvement Interval" means the minimum period of time, to be established by the Exchange, during which members may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

(c) **Procedure for Quoting and Trading FLEX Options.** FLEX options will not be continuously quoted and series are not pre-established. The Exchange's electronic quoting and trading system will not be available for FLEX options. The variable terms of FLEX options shall be established through the process described in this Rule. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, which may include yielding priority to Public Customer orders.

- (1) **Requesting Quotations.** The Requesting Member may initiate a Request-for-Quote ("RFQ") by first announcing all of the following contract terms to the trading crowd of the non-FLEX option and then submitting an RFQ ticket to the post: (1) underlying index, security or foreign currency; (2) type, size, and crossing intention; (3) in the case of FLEX index options and FLEX equity options, exercise style; (4) expiration date; (5) exercise price; and (6) respecting index options, the settlement value. Thereafter, on receipt of an RFQ in proper form, the assigned [Specialist]Lead Market Maker or the Requesting Member shall cause the terms of the RFQ to be disseminated as an administrative text message through the Options Price Reporting Authority ("OPRA").
- (2) **Responses.** Members may enter at the FLEX post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time. Each FLEX Quote shall refer to a reference indicator as the Exchange determines appropriate from time to time. All FLEX Quotes may be entered, modified or withdrawn at any point during the request response time. At the expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth by the Exchange.
- (3) **Formation of Contracts Following the Process of Initial Quotes.** At the expiration of the Request Response Time, the assigned [Specialist]Lead Market Maker, or if none, the Requesting Member shall determine the BBO and the BBO shall be displayed on such market data systems as are available. If the Requesting Member has not indicated an intention to cross or act as principal with respect to any part of the FLEX trade, the member shall promptly accept or reject the displayed BBO: provided, however, that if such a Requesting Member either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX participating members other than the Requesting Member will have an opportunity during the BBO Improvement Interval in which to match, or improve, (as applicable), the BBO. At the expiration of any such BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). If the Requesting Member has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Requesting Member must indicate at the post the price at which the member expects to trade. In these circumstances, the Requesting Member may participate with all other FLEX-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At expiration of the BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). The Requesting Member has no obligation to accept any FLEX bid or offer. Whenever, following the completion of FLEX bidding and offering responsive to a given

RFQs, the Requesting Member rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the RFQs, members may accept the entire order or the unfilled balance of the BBO.

- (4) **Priority.** The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority. The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority.
- (5) **BBO Improvement Interval.** In the case of FLEX equity options only and notwithstanding paragraph (c)(4), whenever the Requesting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the Requesting Member will be permitted to execute the contra side of the trade that is the subject of the RFQs, to the extent of at least 40% of the trade, provided the order is a Public Customer order or an order respecting the Requesting Member's firm proprietary account. Notwithstanding the foregoing, all market participants may effect crossing transactions.
- (6) **Reporting Requirements.** RFQs, responsive quotes and completed trades will be promptly reported to OPRA and disseminated as an administrative text message.
- (7) **Trading Rotations.** There will be no trading rotations in FLEX options, either at the opening or at the close of trading.
- (8) **Hours of Trading.** FLEX options trading must be effected during the hours established by the Exchange. Such hours shall be within regular Exchange trading hours (for the non-FLEX option) on each business day, except that the Exchange in its discretion may determine at any time to narrow or expand FLEX trading hours to encompass, but not exceed, the trading hours of the non-FLEX option.

(d) Who May Trade FLEX Options.

- (1) **Assigned [ROTs]Floor Market Makers and Assigned [Specialists]Lead Market Maker.** An ROT or [Specialist]Lead Market Maker may apply on a form prescribed by the Exchange to be assigned in FLEX options. At least two members shall be assigned to each FLEX option. Only the [Specialist]Lead Market Maker in the non-FLEX option may be the assigned Specialist in that FLEX option ("FLEX [Specialist]Lead Market Maker "). The provisions of [Rule] Options 8, Section 27(c) regarding market making obligations shall be applicable to assigned [ROTs]Floor Market Makers and assigned [Specialists]Lead Market Makers, such that a market must be provided in any FLEX option when requested by an Options Exchange Official.
- (2) **Financial Requirements.** An assigned ROT in FLEX index options shall be required to maintain a minimum of \$100,000 in net liquid assets. An assigned [Specialist]Lead Market Maker in FLEX index options shall be required to maintain a minimum of \$1,000,000 in net capital. Floor Brokers shall be required to maintain a minimum of

\$50,000 in net capital to qualify to trade FLEX options. Each such assigned ROT, assigned [Specialist]Lead Market Maker or Floor Broker shall immediately inform the Exchange upon failure to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule in unusual circumstances.

- (3) **Letters of Guarantee.** No ROT or [Specialist]Lead Market Maker shall effect any FLEX option unless a Letter of Guarantee has been issued by a clearing member organization and filed with the Exchange pursuant to [Rule 703]Options 6D, Section 1 specifically accepting financial responsibility for all FLEX option transactions made by such person and such letter has not been revoked.

**(e) Position Limits.**

- (1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options; 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to [Rule 1001A]Options 4A, Section 6(b)(i); the same number of contracts respecting Alpha Index options that would apply to such Alpha Index options if they were not FLEX; the same number of contracts respecting MSCI EM Index options that would apply to such MSCI EM Index options if they were not FLEX; and the same number of contracts respecting MSCI EAFE Index options that would apply to such MSCI EAFE Index options if they were not FLEX. Reduced value or mini-size FLEX index option contracts shall be aggregated with full value or full-size FLEX index option contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to [Rule 1001A]Options 4A, Section 6 (b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. However, except as provided in subsection (4) of this section (d), positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options. There shall be no position limits for full value options on the Russell 2000® Index ("Full Value Russell 2000® Options") and for one tenth (1/10th) value options on the Russell 2000® Index ("Reduced Value Russell 2000® Options"). There shall be no position limits for full value options on the Nasdaq 100 Index ("Full Value Nasdaq 100 Options") and for the reduced value options on the Nasdaq 100 Index ("Reduced Value Nasdaq 100 Options"). Options on the Full Value and Reduced Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2500™ Index, Russell 2500™ Value Index, Russell 2500™ Growth Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell Top 200® Index, Russell Top 200® Value Index, Russell Top 200® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, Russell MidCap® Growth Index, Russell Small Cap Completeness® Index, Russell Small Cap Completeness® Value Index and Russell Small Cap Completeness® Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same

side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

- (2) FLEX equity options shall not be subject to a separate FLEX position limit. Except as provided in subsection (4) of this section (d), positions in FLEX equity options shall not be taken into account when calculating position limits for non-FLEX equity options, or FLEX or non-FLEX index options.

However, each member or member organization (other than a [Specialist]Lead Market Maker or ROT) that maintains a position on the same side of the market in excess of the standard limit under [Rule 1001]Options 9, Section 13 for non-FLEX equity options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX equity option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX equity option position in excess of the standard limit for non-FLEX equity options of the same class, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirement.

- (3) Positions in FLEX currency options will be aggregated with positions in non-FLEX U.S. dollar-settled foreign currency option contracts for purposes of determining compliance with the position limits established by [Rule 1001]Options 9, Section 13.
- (4) As long as the options positions remain open, positions in FLEX index options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX index options on the same underlying security ("comparable non-FLEX index options"), positions in FLEX equity options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX equity options on the same underlying security ("comparable non-FLEX equity options"), and shall be subject to the position and exercise limits set forth in this rule, and [Rule 1001]Options 9, Section 13, 15 and Options 4A, Sections 6 and 19[1001, 1002, 1001A, and 1002A], as applicable.

(f) Exercise Limits. In determining compliance with [Rules 1002 and 1002A]Options 9, Section 15 and Options 4Am Section 19, exercise limits for FLEX options shall be equivalent to position limits established in this Rule. Positions in FLEX options shall not be taken into account when calculating exercise limits for non-FLEX options, except as provided in paragraph (d) above. The minimum exercise size shall be the lesser of \$1 million underlying equivalent value for FLEX index options, and 25 contracts for FLEX equity and currency options, or the remaining size of the position.

(g) FLEX equity and currency options shall be subject to the exercise-by-exception procedure of Rule 805 of The Options Clearing Corporation.

(h) Notwithstanding Rule (c)(4) of this rule regarding FLEX Index, Equity and Currency Options minimum increments, open FLEX option positions are eligible to be closed in accordance with Options 8, Section 33, Accommodation Transactions, at the minimum increments specified therein. The FLEX option cabinet order may be executed against contraside interest to close a FLEX option position or, to the extent permitted under Rule Options 8, Section 33(a)(3)(B), against contraside interest which opens a FLEX option position. Sections (a) and (b) of this rule shall not apply to FLEX option transactions executed pursuant to this paragraph and Options 8, Section 33. Sections (d) - (h) of this rule shall apply to any FLEX option position opened pursuant to Options 8, Section 33.

### **Section 35. Disputes**

(a) Disputes occurring on and relating to the Trading Floor, if not settled by agreement between the members interested, shall be settled, if practicable, by vote of the members knowing of the transaction in question; if not so settled, they shall be settled by an Options Exchange Official.

In issuing decisions for the resolution of trading disputes, an Options Exchange Official shall institute the course of action deemed to be most fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. An Options Exchange Official may nullify a transaction if the Options Exchange Official determines the transaction to have been in violation of [Rules 1014 (Obligations and Restrictions Applicable to and [Registered Options Traders]Floor Market Makers)]Options 2, Section 4 (Obligations of Market Makers), Options 8, Section 25 (Floor Allocation) or Options 8, Section 24 (Bids and Offers-Premium). This Rule shall not apply to options transactions that are the result of an Obvious Error or Catastrophic Error (as defined in [Rule 1092]Options 3, Section 20). Options transactions that are the result of an Obvious Error or Catastrophic Error shall be subject to the provisions and procedures set forth in [Rule 1092]Options 3, Section 20.

(b) All rulings rendered by an Options Exchange Official are effective immediately and must be complied with promptly. Failure to promptly comply with an initial Options Exchange Official ruling may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other Options Exchange Official rulings issued pursuant to Order and Decorum Regulations (Rule 9216(c)) or Floor Procedure Advices (Rule 9216(b)) and not concerning a trading dispute may result in an additional violation.

(c) Review—Options Exchange Official rulings issued pursuant to Order and Decorum Regulations are reviewable pursuant to Rule 9216(c). Options Exchange Official rulings issued pursuant to Floor Procedure Advices are subject to the Rule 9000 Series. All other Options Exchange Official rulings are reviewable pursuant to paragraph (d) of this Rule.

(d) Review of Options Exchange Official Rulings (Trading Disputes)—All Options Exchange Official rulings are reviewable by the Exchange Review Council.

(i) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the



Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings (including those concerning the nullification or adjustment of transactions) may be sustained, overturned or modified by the Exchange Review Council. The Exchange Review Council may act as a panel with a minimum of three Committee members, of which no more than 50% can be engaged in market making activity or employed by an Exchange member organization whose revenues from market making activity exceed ten percent of its total revenues.

In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).

(ii) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to this paragraph (d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder.

(iii) A member or member organization seeking review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council. In addition, in instances where the Exchange, on behalf of a member or member organization, requests a review by another options exchange, the Exchange will pass any resulting charges through to the relevant member organization.

(iv) Decisions of the Exchange Review Council shall be final and may not be appealed to the Exchange's Board of Directors.

(v) All decisions of the Exchange Review Council are effective immediately and must be complied with promptly. Failure to promptly comply with a decision of the Exchange Review Council may result in referral to the Phlx Regulation Department, Department of Market Regulation or Department of Enforcement.

(e) Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of a Option Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

## ***Floor Trade Administration***

### **Section 36. Resolution Of Uncompared Trade**

(a) When a disagreement between members or member organizations arising from an uncompared Exchange options transaction cannot be resolved by mutual agreement prior to 10:00 a.m. on the first business day following the trade date (in the case of options on stocks or Exchange-Traded Fund Shares) or prior to 8:30 a.m. on the first business day following the trade date (in the case of options on foreign currencies), the parties shall promptly, but not later than 3:30 p.m. on such day (in the case of options on stocks or Exchange-Traded Fund Shares) or 2:00 p.m. on such day (in the case of options on foreign currencies (unless otherwise excused by the Exchange) close out the transaction in the following manner. The member or member organization representing the purchaser in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to purchase the option contract that was the subject of the uncompared Exchange options transaction. The member or member organization representing the writer in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to sell (write) the option contract that was the subject of the uncompared Exchange options transaction. Any claims for damages resulting from such transactions must be made promptly for the accounts of the members or member organizations involved and not for the accounts of their respective customers. Notwithstanding the foregoing, if either member or member organization is acting for a firm account in an uncompared Exchange options transaction and not for the account of a customer, such member organization need not enter into a new transaction, in which event money differences will be based solely on the closing transaction of the other party to the uncompared transaction.

(b) In the event an uncompared transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange options transaction can be effected to establish the amount of any loss, the member or member organization not at fault may claim damages against the other member or member organization involved in the transaction based on the terms of such transaction. All such claims for damages shall be made promptly.

### **Section 37. Letters of Authorization**

(a) *Required of each Options Floor Broker.* No Options Floor Broker shall act as such on the Exchange unless there is in effect and filed with the Exchange a Letter of Authorization that has been issued for such Options Floor Broker by a Clearing Member.

(b) *Terms of Letter of Authorization.* A Letter of Authorization shall provide that the issuing Clearing Member shall be responsible for the clearance of the Exchange transactions of the Options Floor Broker when the name of such Clearing Member is given up.

(c) *Revocation of Letter of Authorization.* A Letter of Authorization shall remain in effect until a written notice of revocation has been filed with the Exchange. If such written notice has not been filed for at least one hour prior to the opening of trading on a particular business day, such revocation shall not become effective until the close of trading on such day.

### **Section 38. Communications and Equipment**

(a) No member or member organization shall establish or maintain any private wire connection, private radio, television or wireless system, between the Exchange Trading Floor and a nonmember without application to and approval by the Exchange.

Every such means of communication shall be registered with the Exchange. Notice of the discontinuance of any such means of communication shall be promptly given to the Exchange.

(b)(1) No member, member organization or person associated with a member organization shall establish or maintain any telephonic communication between the Options Floor and any other location, or between locations on the Options Floor, without the prior written approval of the Exchange.

(2) No member, member organization or person associated with a member organization shall:

(A) establish or maintain any telephonic, electronic or wireless transmitting system or device, including related antennas, on the Options Floor or

(B) operate any other equipment on the Options Floor that creates radio frequency (RF) or other interference with the systems of the Exchange or other members.

(c) The Exchange may remove any telephonic, electronic or wireless equipment that has not received written approval under subsection (b)(1) from any Exchange facility.

(d) The Exchange may remove any telephonic, electronic or wireless equipment that violates subsection (b)(2) from any Exchange facility.

(1) The Exchange may deny, limit or revoke the use of any communication device whenever it determines that use of such communication device: (1) interferes with normal operation of the Exchange's own systems or facilities or with the Exchange's regulatory duties, (2) is inconsistent with the public interest, the protection of investors or just and equitable principles of trade, or (3) interferes with the obligations of a member or member organization to fulfill its duties under, or is used to facilitate any violation of, the Securities Exchange Act or rules thereunder, or Exchange rules.

(2)

(e)(1) *Registration.* Members and member organizations must register, prior to use, any new telephone to be used on the Options Floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the member or member organization must immediately inform the Exchange in writing on the same day as when the change occurs. At the time of registration, members and member organization representatives must sign a statement that they are aware of and understand the rules and procedures governing the use of telephones on the Options Floor.

(2) *Capacity and Functionality.* No person on the Options Floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not

located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers, but is not limited to, intercoms, walkie-talkies and any similar devices, and open mic and web-based communication applications. Speed-dialing features are permitted on any member telephone.

(3) *[Specialists]Lead Market Makers and [Registered Options Traders]Floor Market Makers.*

(A) *[Specialist]Lead Market Maker and [Registered Options Traders ("ROTs")]Floor Market Makers* may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options Floor).

(B) *[ROTs]Floor Market Makers* located off the Options Floor may not place an order by calling a Floor Broker who is present in a trading crowd. *[ROTs]Floor Market Makers* located off the Options Floor may not otherwise place an order by calling the *[Specialist]Lead Market Maker* phone in the trading crowd. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(4) *Floor Brokers.*

(A) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options Floor. These telephones may not use a call forwarding or open mic feature on the Options Floor; if a call forwarding or open mic feature is available on the phone then such feature must be disengaged at all times when the phone is on the Options Floor. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(B) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(5) *Clerks.*

(A) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(B) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Options Floor.

- (6) *Telephone Records*. Members must maintain logs of calls and chats, including their cellular or cordless telephone records and logs of calls placed, for a period of not less than three years, the first two years in an easily accessible place. The Exchange reserves the right to inspect and/or examine such telephone records.
- (7) *Exchange Liability*. The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options Floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

(f) The Exchange has established a Wireless Telephone System policy. Violations of the Wireless Telephone System policy may result in disciplinary action by the Exchange.

(g) This Rule and any relevant Exchange policy are intended to apply to all communication and other electronic devices on the floor of the Exchange, including, but not limited to, wireless, wired, tethered, voice, and data.

### **Section 39. Option Minor Rule Violations and Order and Decorum Regulations**

#### **A. [SPECIALISTS]Lead Market Makers**

##### **A-1 Options Floor Based Management System**

*Options Floor Based Management System*. In order to create an electronic audit trail for options orders negotiated by [Specialists]Lead Market Makers on the Exchange's Options Floor, a [Specialist]Lead Market Maker or such [Specialist's]Lead Market Maker's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such [Specialist]Lead Market Maker onto the electronic Options Floor Based Management System as described in Options 8, Section 28(e)(1). The following specific information with respect to orders negotiated by a [Specialist]Lead Market Maker shall be recorded by such [Specialist]Lead Market Maker or such [Specialist's]Lead Market Maker's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or [m]Market [o]Order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A [Specialist]Lead Market Maker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Options 8, Section 22(a) [Specialists]Lead Market Makers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that [Specialists]Lead Market Makers execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(2) (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(2)(E)), [Specialists]Lead Market Makers shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been

time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. [Specialists]Lead Market Makers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

[Specialists]Lead Market Makers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. [Specialists]Lead Market Makers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by [Specialists]Lead Market Makers, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Specialist on the FBMS. The [Specialist]Lead Market Maker may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. [Specialists]Lead Market Makers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including [Rules 1014 and 1084]Options 3, Section 7, Options 5, Section 2 and Options 8, Section 24.

A [Specialist]Lead Market Maker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

## **A-2 Requesting Market Quotations**

A [Specialist]Lead Market Maker may request an ROT in the crowd to state his current bid and offer (including size) for any series of options traded at the post. A [Specialist]Lead Market

Maker may request that staff or an Options Exchange Official call for additional [ROTs]Floor Market Makers to enter the trading crowd.

#### FINE SCHEDULE

Fine not applicable

### **A-3 All-or-None Option Orders**

An All-or-None Order is described in [Rule 1080]Options 3, Section 7(b)(5). This rule shall apply to All-or-None Orders submitted on the trading floor. An All-or-None Order has no standing respecting executions in the trading crowd except with respect to other All-or-None Orders. When represented in the trading crowd, All-or-None Orders are not included as part of the bid or offer.

#### FINE SCHEDULE

Fine not applicable

## **B. REGISTERED OPTIONS TRADERS**

### **B-1 Responsibility to Make Markets**

An ROT shall not refuse a request by a Floor Broker, [Specialist]Lead Market Maker, or Options Exchange Official to make a two sided market for any option series trading in the same crowd at which such ROT is trading.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-2 Crowd Courtesy**

An ROT shall position himself in the trading crowd so as to permit easy access to the time clock located at the [Specialist]Lead Market Maker post.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00

3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### B-3 Trading Requirements

(a) An ROT (other than an RSQT or a Remote [Specialist]Lead Market Maker) is required to trade in person, and not through the use of orders (except that non-streaming [ROT's]Floor Market Makers can use orders entered in person), the greater of 1,000 contracts or 50% of his contract volume on the Exchange each quarter. Also, at least 50% of an ROT's trading activity in each quarter must be in assigned options. No application by an ROT to change options assignments will be approved unless such ROT is in compliance with the above requirements at the time the application for change is made.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a)

1. Quarterly requirement to trade the greater of 1,000 contracts or 50% of contract volume in person

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

2. Quarterly requirement to trade 50% in assigned options

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

(b) For any calendar quarter, in addition to the requirements of paragraph (a) above, in order for an ROT (other than an RSQT or a Remote [Specialist]Lead Market Maker) to receive [Specialist]Lead Market Maker margin treatment for off-floor orders in accordance with Options 8, Section 27(f), the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders except that non-streaming [ROT's]Floor Market Makers can use orders entered in person) and 75% of his total contracts that



quarter in assigned options. Violations of this trading requirement are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

**B-4 [ROT]Floor Market Makers Entering Orders from On-Floor and Off-Floor for Execution on the Exchange**

An [ROT]Floor Market Maker may not enter from off the floor opening orders for his market maker accounts, but may enter from off the floor or on the floor opening orders for his customer account. An [ROT]Floor Market Maker may enter from off the floor closing orders for either his market maker or customer account.

However, an ROT who has executed the greater of 1,000 contracts or 80% of his total contracts in a calendar quarter in person and 75% of his total contracts that quarter in assigned options may enter an opening transaction from off the floor for his market maker account if such transaction is for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. The off-floor orders for which an ROT receives [Specialist]Lead Market Maker margin treatment shall be subject to the obligations of [Rule 1014]Options 2, Section 4(a) and an ROT is responsible for evidencing reliance of these provisions. Violations of this paragraph are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

An ROT who enters an order from off the floor must advise the person receiving the order that it is an order for an ROT and must state whether the order is opening or closing, for a customer or market maker account, or opening from off-floor pursuant to the previous paragraph.

While on the floor, an ROT may place opening orders for his market maker account with a Floor Broker or with a [Specialist]Lead Market Maker which may then be executed even if the ROT has left the floor prior to its execution.

An ROT may cancel from off the floor opening or closing orders for his market maker or customer accounts; but if he wishes to effect a change in the terms of an opening order (e.g., security, price, volume, series, class or contingencies) from off the floor such changed order must be executed in his customer account, except in accordance with the second paragraph of this Advice.

An ROT shall not give discretion to a Floor Broker and shall not give a Floor Broker "not held" orders. With respect to delta orders placed with a Floor Broker for the account of an ROT, such orders may only be placed as day orders and must have the applicable delta legibly recorded on both the broker's floor ticket and the ROT's record of the order.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00

4th Occurrence and Thereafter      Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-5 Agency-Principal Restrictions**

Except under extraordinary circumstances and with the prior approval of an Options Exchange Official, a member may not act as an ROT and as a Floor Broker during the same trading session in options on the same underlying security. A member has acted as a Floor Broker if he has accepted an order even though such order was not executed. However, an ROT may close out positions held in his customer account in options on the same underlying security while he is acting as an ROT in those options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-6 Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)**

#### **Section A**

[Exchange Rules 119 and 120]Supplementary Material .02 and .03 to Options 8, Section 30 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.

For the purposes of this Advice, "Initiating Order" means an incoming contra-side order.

- (i) Respecting transactions that are executed and allocated in open outcry by a participant other than the [Specialist]Lead Market Maker, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Advice. The Remainder of the Order shall be allocated pursuant to this Advice.

- (ii) An Initiating Order executed manually by the [Specialist]Lead Market Maker shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

## Section B

Orders of controlled accounts, other than [ROTs]Floor Market Makers and [Specialists]Lead Market Makers market making in-person, must be

- (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and
- (2) recorded as for a controlled account by making the appropriate notation in the Options Floor Based Management System.

In any instance where an order is misrepresented in this fashion due to factors which give rise to the concern that it was the result of anything other than an inadvertent error, the Exchange may determine to bypass the fine schedule below and refer the incident to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement for possible disciplinary proceedings in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

## Section C

The Enhanced [Specialist]Lead Market Maker Participation is a percentage of the Remainder of the Order to which the [Specialist]Lead Market Maker is entitled.

Enhanced [Specialist]Lead Market Maker Participation - In equity option, index option and U.S. dollar-settled foreign currency option classes, when the registered [Specialist]Lead Market Maker is on parity with a controlled account, as defined above, in accordance with Exchange [Rules 119 and 120]Supplementary Material .02 and .03 to Options 8, Section 30 and the number of contracts to be bought or sold is greater than five, the [Specialist]Lead Market Maker is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced [Specialist]Lead Market Maker Participation"), except in the following circumstances:

- (1) where there is one controlled account on parity, in which case the [Specialist]Lead Market Maker is entitled to receive 60% of the Remainder of the Order; or
- (2) where there are two controlled accounts on parity, in which case the [Specialist]Lead Market Maker is entitled to receive 40% of the Remainder of the Order.

**Section D**

Reserved.

**Section E**

Allocation of the Remainder of the Order Among [Specialist]Lead Market Maker and [ROTs]Floor Market Makers on Parity. After the application of this Advice to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in Options 8, Section 25(c)(4)) as follows:

- (A) *Entitlement.* [ROTs]Floor Market Makers and [Specialists]Lead Market Makers on parity are entitled to their Defined Participation (as described below), subject to: (1) any Waiver, as described below; and (2) rounding, as described below.
- (B) *Size.* The term "stated size" in respect of an order or electronic quotation shall mean:
- (1) in the case of orders handled manually by the [Specialist]Lead Market Maker:
    - (a) (a) (i) if a crowd participant (including the [Specialist]Lead Market Maker) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;
    - (ii) if the [Specialist]Lead Market Maker, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such [Specialist]Lead Market Maker, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such [Specialist]Lead Market Maker, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of this Advice;
    - (b) unless the [Specialist]Lead Market Maker has an Actual Size, the stated size of the [Specialist]Lead Market Maker shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all [ROTs]Floor Market Makers who have Actual Sizes;
    - (c) the stated size of an [ROT]Floor Market Maker who does not have an Actual Size is zero.
  - (2) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.
- (C) *Defined Participation.* Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:

(1) in the case of a [Specialist]Lead Market Maker entitled to an Enhanced [Specialist]Lead Market Maker Participation, the Enhanced [Specialist]Lead Market Maker Participation, up to the [Specialist's]Lead Market Maker's stated size, as set forth in C of this Advice, as applicable. The [Specialist]Lead Market Maker may decline to receive the Enhanced [Specialist]Lead Market Maker Participation, in which case the [Specialist]Lead Market Maker shall be entitled to participate as one crowd participant, up to the [Specialist's]Lead Market Maker's stated size.

(2) except as provided in (1) above, the Defined Participation of the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers on parity is determined as follows:

(a) where all participants have equal stated sizes, their Defined Participations shall be equal;

(b) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):

(i) the "Base Participations" of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental Participation, and the other participants shall have "Supplemental Participations" as determined under (ii) and (iii) below;

(ii) if the remaining stated sizes (i.e., after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further "Supplemental Participations" as determined under (iii) below; and

(iii) if the remaining stated sizes (i.e., after taking into account Base Participations and prior Supplemental Participations) of all participants having further Supplemental Participations is equal, then their further Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause (iii).

The process described in clause (iii) shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

(iv) (a) If the sum of the Base Participations pursuant to sub-paragraph (i) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.

(b) If the sum of the Supplemental Participations pursuant to sub-paragraph (ii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.

(c) If the sum of the further Supplemental Participations pursuant to sub-paragraph (iii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.

(3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Advice. Notwithstanding the limitation set forth in sub-paragraph (C)(1) that limits the [Specialist's] Lead Market Maker's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the [Specialist] Lead Market Maker shall be entitled to receive the Enhanced [Specialist] Lead Market Maker Participation as set forth in Section C of this Advice, as applicable, but not to exceed the [Specialist's] Lead Market Maker's Actual Size (if the [Specialist] Lead Market Maker has an Actual Size) in such excess contracts.

(D) *Waiver.* (1) Any ROT (other than an RSQT) or [Specialist] Lead Market Maker may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an "Offer to Waive").

(a) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.

(b) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (i) allocating the Remainder of the Order in accordance with this Advice, taking into account the Offer to Waive; or (ii) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a "Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.

(c) (i) In the case of an option which is not subject to an Enhanced [Specialist]Lead Market Maker Participation, as set forth in Section C of this Advice, if the [Specialist]Lead Market Maker or an ROT effects a Waiver in the manner provided above, the number of contracts to which such [Specialist]Lead Market Maker or ROT is entitled under this Advice shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the [Specialist]Lead Market Maker) in accordance with this Advice.

(ii) In the case of an option which is subject to an Enhanced [Specialist]Lead Market Maker Participation, as set forth in Section C of this Advice, and one or more [ROTs]Floor Market Makers effect Waivers of their entire entitlements ("Total Waivers"), the number of [ROTs]Floor Market Makers with whom the [Specialist]Lead Market Maker is deemed to be on parity for purposes of determining the Enhanced [Specialist]Lead Market Maker Participation shall be reduced by the number of [ROTs]Floor Market Makers effecting Total Waivers and the following additional Rules shall apply:

(A) in the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with three or more [ROTs]Floor Market Makers, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the [Specialist]Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Advice, as if the [Specialist]Lead Market Maker had been on parity with three [ROTs]Floor Market Makers.

(B) in the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with two [ROTs]Floor Market Makers, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the [Specialist]Lead Market Maker shall be that which the Specialist would be entitled to receive under this Advice as if the [Specialist]Lead Market Maker had been on parity with two [ROTs]Floor Market Makers.

(C) In the event that one or more [ROTs]Floor Market Makers on parity with the [Specialist]Lead Market Maker effect a Total Waiver of their respective entitlements such that the [Specialist]Lead Market Maker is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the [Specialist]Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Advice as if the [Specialist]Lead Market Maker had been on parity with one

ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).

(iii) Partial Waiver. In the case of an option which is subject to an Enhanced [Specialist]Lead Market Maker Participation, in the event that one or more [ROTs]Floor Market Makers effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the [Specialist]Lead Market Maker shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the [Specialist]Lead Market Maker being on parity with only one ROT, the [Specialist]Lead Market Maker shall not be entitled to receive a number of contracts that is greater than 60% of the Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.

In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Partial Waiver(s).

(iv) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant (i.e., subject to the provisions of sub-paragraph (D)(1)(b) above, any decision by a crowd participant to waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

(E) Rounding. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

(F) Just and Equitable Principles of Trade. (1) It shall be considered conduct inconsistent with just and equitable principles of trade for a member:

(a) to allocate initiating orders other than in accordance with this Advice;

(b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.

(2) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.



(G) Notwithstanding the first sentence of this Advice, neither [Rule 119(b) and (c)] Supplementary Material .02 to Options 8, Section 30 concerning precedence based on the size of bids on parity, nor [Rule 120] Supplementary Material.03 to Options 8, Section 30 (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by this Advice.

## Section F

*Allocation of Automatically Executed Trades.* After public customer market and marketable limit orders have been executed, trades automatically executed in such options shall be allocated among the [Specialist]Lead Market Maker and crowd participants with orders or quotations at the Exchange's disseminated price in the following manner:

- (i) If the [Specialist]Lead Market Maker or any crowd participant is quoting alone at the disseminated price and their quote is not matched by another market participant prior to execution, such [Specialist]Lead Market Maker or crowd participant shall be entitled to receive a number of contracts up to the size associated with his/her quotation.
- (ii) *Parity.* Quotations entered electronically by the [Specialist]Lead Market Maker or an SQT that do not cause an order resting on the limit order book to become due for execution may be matched at any time by quotations entered electronically by the [Specialist]Lead Market Maker and/or other SQTs, and by ROT limit orders entered and shall be deemed to be on parity, subject to the requirement that orders of controlled accounts must yield priority to customer orders as set forth in Options 8, Section 25(c)(1)(A).

(A) if the [Specialist]Lead Market Maker is quoting at the Exchange's disseminated price:

(1) orders for 5 contracts or fewer shall be allocated first to the [Specialist]Lead Market Maker, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to [Specialists]Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this sub-paragraph (ii)(A)(1), the [Specialist]Lead Market Maker must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(2) Respecting orders for greater than 5 contracts, the [Specialist]Lead Market Maker shall be entitled to receive a number of contracts that is the greater of: (i) the proportion of the aggregate size associated with the [Specialist's]Lead Market Maker's quote, SQT quotes, and non-SQT ROT limit orders entered on the book at the disseminated price represented by the size of the [Specialist's]Lead Market Maker's quote, or (ii) 60% of the contracts to be allocated if the [Specialist]Lead Market Maker is on parity with one SQT or one non-SQT ROT that has placed a

limit order on the book at the Exchange's disseminated price; (iii) 40% of the contracts to be allocated if the [Specialist]Lead Market Maker is on parity with two SQTs or non-SQT [ROTs]Floor Market Makers that have placed a limit order on the book at the Exchange's disseminated price; and (iv) 30% of the contracts to be allocated if the [Specialist]Lead Market Maker is on parity with three or more SQTs or non-SQT [ROTs]Floor Market Makers that have placed a limit order on the book at the Exchange's disseminated price. In order to be entitled to receive the number of contracts set forth in this sub-paragraph (ii)(A)(2), the [Specialist]Lead Market Maker must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(3) Thereafter, SQTs quoting at the disseminated price and non-SQT [ROTs]Floor Market Makers that have placed limit orders on the limit order book at the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the total remaining aggregate size associated with SQT quotes and non-SQT [ROT]Floor Market Maker limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT [ROT]Floor Market Maker, by the size of the limit order they have placed on the limit order book. Such SQT(s) and non-SQT [ROTs]Floor Market Makers shall not be entitled to receive a number of contracts that is greater than the size associated with their quotation or limit order.

(4) If any contracts remain to be allocated after the [Specialist]Lead Market Maker, SQTs and non-SQT [ROTs]Floor Market Makers with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size of the limit order they have placed on the limit order book. Such off-floor broker-dealers shall not be entitled to receive a number of contracts that is greater than the size that is associated with each such limit order.

(B) If the [Specialist]Lead Market Maker is not quoting at the Exchange's disseminated price, SQTs quoting at the disseminated price and non-SQT [ROTs]Floor Market Makers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts equal to the proportion of the aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book. Thereafter, off-floor broker-dealers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts as specified in paragraph (ii)(A)(4) above.

(iii) Notwithstanding the first sentence of Options 8, Section 25(c)(1) neither Supplementary Material .02 to Options 8, Section 30, [Rule 119(a)-(d) and], Options 8, Section 23(f), nor [Rule 120]Supplementary Material .03 to Options 8, Section 30 (insofar as it incorporates those provisions by reference) shall apply to the allocation of automatically executed trades.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

Section A	No fine applicable. Matters subject for review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.	
Section B	1st Occurrence	\$500.00
	2nd Occurrence	\$1,000.00
	3rd Occurrence	\$2,000.00
	4th Occurrence and thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement
Section C	Fine not applicable	
Section D	Fine not applicable	
Section E	Fine not applicable	

**B-7 Options Floor Based Management System**

*Options Floor Based Management System.* In order to create an electronic audit trail for options orders negotiated by [Registered Options Traders]Floor Market Makers on the Exchange's Options Floor, a [Registered Options Trader]Floor Market Maker or such [Registered Options Trader's]Floor Market Maker's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such [Registered Options Trader]Floor Market Maker onto the electronic Options Floor Based Management System as described in Options 8, Section 28(e)(1). The following specific information with respect to orders negotiated by a [Registered Options Trader]Floor Market Maker shall be recorded by such [Registered Options Trader]Floor Market Maker or such [Registered Options Trader's]Floor Market Maker's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or [m]Market [o]Order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A [Registered Options Trader]Floor Market Maker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management

System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to [Rule 1000(f)]Options 8, Section 22, [Registered Options Traders]Floor Market Makers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that [Registered Options Traders]Floor Market Makers execute orders in the Exchange's options trading crowd pursuant to [Rule ]Options 8, Section 22(a) (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(2)(E)), [Registered Options Traders]Floor Market Makers shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. [Registered Options Traders]Floor Market Makers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

[Registered Options Traders]Floor Market Makers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. [Registered Options Traders]Floor Market Makers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by [Registered Options Traders]Floor Market Makers, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a [Registered Options Traders]Floor Market Makers submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the [Registered Options Trader]Floor Market Maker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the [Registered Options Trader]Floor Market Maker on the FBMS. The [Registered Options Trader]Floor Market Maker may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. [Registered Options Traders]Floor Market Makers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including [Rules 1014]Options 3, Section 10 and Option 8, Section 24 and 1084.

A [Registered Options Trader]Floor Market Maker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence      \$500.00

2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-8 Use of Floor Brokers by an ROT While on the Floor**

(a) When an ROT who is on the floor gives an order to a Floor Broker for execution, the ROT must initial and time stamp the order ticket. The Floor Broker or his employees must indicate on the Options Floor Based Management System whether such order is opening or closing.

(b) If such order opens or increases a position in the account of an ROT, the ROT must be aware of the terms of the trade, initial and time stamp the order and retain a copy of the ticket.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-9 Use of Tickets**

When an issue of parity arises among yielding and non-yielding orders, unless the field which reads "closing" on an options ticket is checked, the order for an ROT shall be presumed to be an opening order.

FINE SCHEDULE

Fine not applicable

### **B-10 Responsibility for Mismatched or "Out" Trades**

In order for an ROT to be held responsible on mismatches or other "out" trades of listed options, the ROT must have been informed of the problem before 9:30 A.M. on the business day following the transaction in question.

FINE SCHEDULE

Fine not applicable

### **B-11 [ROT's] Floor Market Makers and [Specialists] Lead Market Makers Entering Orders for Execution on Other Exchanges in Multiply Traded Options**

(a) A ROT or [Specialist]Lead Market Maker may not for the Market Functions Account send an opening order to buy or sell options on any other exchange unless such ROT or [Specialist]Lead Market Maker is registered in that specific option on the Exchange.

(b) Each opening order sent for execution on another market for the market maker account of a ROT or [Specialist]Lead Market Maker must be initiated from on the Exchange floor, except if executed pursuant to Options 8, Section 27(f) and the corresponding provisions in Advice B-4 respecting off-floor orders. In initiating any such order, the ROT or [Specialist]Lead Market Maker, or Floor Broker, in the case of orders initiated from off-floor, is required to clear the crowd on the Exchange when the bid or offer of the order is on or between the Exchange disseminated market. Clearing the crowd on the Exchange requires that the order be loudly and audibly voiced in the crowd and, if not then executed, the order may be sent away.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence of Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **C. FLOOR BROKERS**

#### **C-1 Ascertaining the Presence of [Registered Options Traders]Floor Market Makers in a Trading Crowd**

A Floor Broker representing an order in options shall ascertain that at least one [Registered Options Trader]Floor Market Maker is present in the trading crowd at the post where such order is traded. This Floor Procedure Advice C-1 shall not apply to a Floor Broker in any foreign currency option if no [Registered Options Trader]Floor Market Maker registered in such foreign currency option is present on the Exchange's trading floor at that time.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **C-2 Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System (as described in Rule 1080(a)(i)(C)). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or [m]Market [o]Order or, in the case of a complex or multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

Pursuant to Options 8, Section 22(a), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event of a malfunction in the Options Floor Based Management System or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the Exchange's options trading crowd for a specific reason pursuant to Options 8, Section 22(a)(3), (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(3)(E)), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Floor Brokers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If

the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including [Rules 1014,]Options 3, Section 10 and Option 8, Section 24 and 1084.

A Floor Broker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

*[The Exchange anticipates that it will implement the Snapshot feature referenced herein and described further in Options 8, Section 28(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.]*

### **C-3 Handling Orders of [ROTs]Floor Market Makers and Other Registered Options Market Makers**

(a) A Floor Broker must announce to the trading crowd when he is handling an order for a ROT and must state whether such order is opening or closing. In addition, in handling such orders the Floor Broker must comply with [Commentaries .07 of Rule 1014 and ]Options 8, Section 25 (d)(1), (h) and (j).

(b) Upon receipt of an options order on the Exchange for any account of a person registered as an options market maker on another national securities exchange, the Floor Broker or his employees must so indicate on the Options Floor Based Management System and must ensure that the order is represented in the trading crowd as a "BD" order for the purposes of the Exchange's yielding requirements. A Floor Broker must make reasonable efforts to inquire which orders placed with him for execution on the Exchange qualify as such orders.

(c) Before handling an opening transaction on behalf of a ROT, the Floor Broker or his employees must ascertain that the ROT is aware of the terms of the trade and assure that the floor ticket has been initialed and time-stamped by the ROT and that the order is appropriately entered on the Options Floor Based Management System. The Floor Broker must note on the Options



Floor Based Management System any opening off-floor order to be cleared into an Exchange market maker account, as indicated by a ROT seeking market maker margin treatment for such order pursuant to Options 8, Section 27(f) and Advice B-4, and comply with the requirements of Advice B-12 respecting multiply traded options.

(d) A Floor Broker may not exercise any discretion with respect to the order of a ROT or any order for the account of an options market maker registered on another exchange.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **C-4 Floor Brokers Handling Orders for Same Firm**

A Floor Broker may not accept opening or discretionary orders for an ROT who is associated with the same member organization as such Floor Broker or who is associated with another member organization [which is pursuant to Exchange Rule 793] affiliated with the same member organization as such Floor Broker.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **C-5 [ROT's]Floor Market Makers Acting as Floor Brokers**

Whenever an order is handled as agent by a Floor Broker who is also an ROT, the Floor Broker must advise at the time a market is sought from the crowd for the order that he is acting as a Floor Broker. Bids or offers made in person by an ROT will be assumed to be for his account unless otherwise specified.

An exemption to the above exists in the instance where a Floor Broker is representing an order in an issue in which the broker has previously that day represented himself as an agent, provided that the Floor Broker obtain the prior approval of an Options Exchange Official. In such cases, a Floor Broker is not required to further advise the crowd of his role as agent in that issue for the remainder of that day.

## FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**C-6 Responsibility to Represent Orders to the Trading Crowd**

(a) Except as otherwise provided in Options Floor Procedure Advice B-11(c) and Exchange Options 8, Section 30(c), once an option order has been received on the floor, it must be represented to the trading crowd before it may be represented away from the crowd.

(b) A Floor Broker must be loud and audible when representing a market and/or representing an order in the trading crowd. A Floor Broker must make reasonable efforts to position himself in the trading crowd to be heard by the majority of the trading crowd.

## FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a) Fine not applicable. Matters subject for review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

(b)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**C-7 Floor Brokers and Clerks Trading in their Customer Accounts**

All persons employed on the trading floor in association with a member organization, other than [ROTs]Floor Market Makers and [Specialists]Lead Market Makers, are prohibited from initiating trades in Exchange options in their customer accounts while on the floor. A member organization which accepts an order for the customer account of such a person must process the order through the channels it normally provides for its other customer orders. When any such order is received by the member organization and delivered to the floor for execution, it may not be handled by any person with a beneficial interest in the account, or by any associated person with knowledge that the order is for the account of an associate. Once such a person has placed an order for his/her customer account in an option, that person is prohibited from brokering orders in that option for the remainder of that day or until such order has been executed or

cancelled whichever is later. This provision shall not apply to any transaction permissible under Section 11(a)(1) of the Securities Exchange Act of 1934.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

Matters subject to review by Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

## **D. STAFFING**

### **D-1 Required Staffing of Options Floor**

Every Options [Specialist]Lead Market Maker Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT must have a representative available on the floor (except that a Remote [Specialist]Lead Market Maker must have a representative available via telephonic and/or electronic communication access) for the thirty minutes before the opening and the thirty minutes after the close of trading and one hour after the preliminary trade reports are distributed. Such representatives must be authorized to make appropriate changes and corrections to trades of or guaranteed by such [Specialist]Lead Market Maker Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT. Additionally, on expiration such representatives must be available on the floor until the Exchange has announced the last call for adjustments in expiring options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

## **E. MISCELLANEOUS**

### **E-1 Use of Identification Letters and Numbers**

All [Specialists]Lead Market Makers, [ROT's]Floor Market Makers, and Floor Brokers must use the complete alpha/numeric identification assigned by the Exchange. All Floor Brokers or their employees must indicate their complete alpha/numeric identifiers on the Options Floor Based Management System for each order they receive and represent in the trading crowd.

Fine not applicable.

### **E-2 Allocation, Time Stamping, Matching and Access to Matched Trades**

(a) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System. Trades executed electronically via the System and through the Options Floor Based Management System are automatically trade reported without further action required by executing parties:

(i) in a trade involving a Floor Broker, the Floor Broker shall do so, provided that a Floor Broker may delegate this responsibility to the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the [Specialist's]Lead Market Maker's direct supervision) if the Specialist agrees to accept such responsibility, and, in the event of such delegation, the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the [Specialist's]Lead Market Maker's direct supervision) shall do so:

(ii) in all other cases where the [Specialist]Lead Market Maker is a participant (i.e., where there is no Floor Broker), the [Specialist]Lead Market Maker (or an assistant to the [Specialist]Lead Market Maker under the Specialist's direct supervision) shall do so.

(iii) in any other case (i.e., where there is no Floor Broker and no [Specialist]Lead Market Maker is involved), the largest participant shall do so (for example, where several [Registered Options Traders]Floor Market Makers are involved):

and

(iv) if there is only one seller and one buyer (no Floor Broker and no [Specialist]Lead Market Maker is involved), the seller shall do so (for example, where only two [Registered Options Traders]Floor Market Makers are involved).

The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself/ by initialing the trade tickets. In the case of a trade, executed using the Floor Based Management System, such member shall allocate the trade using the Options Floor Based Management System.

(b) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(c) Execution times must be recorded on the reverse side of one or more of the tickets to a matched trade.

(d) Once a trade has been matched and submitted to a DET located on the trading floor for reporting, the respective parties to the trade must preserve the matched tickets, or copies thereof, for a period of not less than three years.

(e) Member access to tickets comprising a matched trade is available to any participant of that trade, as well as the respective [Specialist]Lead Market Maker and any Options Exchange Official acting in his capacity as an Options Exchange Official. Requests to review trade matches must be made with the [Specialist]Lead Market Maker Unit.

FINE SCHEDULE (Implemented on a three-year running calendar basis).

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

E-2 (b)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-3 Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements**

(a) Sp, St, Comb, Syn - Members executing spread, straddle or combination orders in reliance upon the "spread priority rule," Options 8, Section 34(d), or synthetic option (buy-write, synthetic put and synthetic call) orders, must mark the tickets as "sp" for spreads, "st" for straddles, "comb" for combinations and "syn" for synthetics. Members or their employees must make the appropriate notation on the Options Floor Based Management System.

(b) Additional Marking Requirements - The following is a list of requirements to mark order tickets or, in the case of trades involving the Options Floor Based Management System to make the appropriate notations on the Options Floor Based Management System, including a description and reference to the Rule or Advice requiring such mark or notation:

Circling "yield"	yielding/11(a) (1)	Advice B-6
acronym	identification letter/#s	Advice E-1
ROT initial/time stamp	on-floor brokered orders	Advice B-8, C-3

SS	sold sale	Minor Rule Plan F-3
F	facilitation	Advice B-11
BD	non-member BD	Advice A-11
[B/X	bid-exempt	Rule 1072]
N	non-Phlx [ROTs] [Registered Options Trader] <u>Floor Market Makers</u>	Advice C-3
P	off-floor/market maker margin	Options8, Section 27(f)
P/A	principal acting as agent	[Rule 1015] <u>General 2, Section 17</u>

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **E-4 Changes or Corrections to Material Terms of a Matched Trade**

(a) All correction sheet submissions which change material terms of a transaction (security, price, volume, series, class and customer to Firm participations) must be signed by all parties to the transaction and by a representative of the [Specialist]Lead Market Maker Unit. Also if one of the parties to the transaction is not present at a time such matter is being resolved, a signature by Regulatory staff is required to acknowledge the contra-side's absence. The Regulatory signature in any such case does not relieve any party to the trade of liability in connection with the change.

(b) Any person signing a correction sheet shall use due diligence to confirm the correction before signing the correction sheet, including checking the appropriate floor tickets or computerized report ("run") in any case where a sizeable error may result in the absence of appropriate corrective action.

Generally, a sizeable error with respect to equity options and index options exceeds \$1,000 and, with respect to foreign currency options, exceeds \$3,000. However, the circumstances surrounding each correction must be considered and these amounts are guidelines only.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
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2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-5 Option Quote Parameters**

When bidding and/or offering in equity option or index option issues, the following parameters should be utilized after the opening for those quoting verbally:

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment.

### **Foreign Currency Options**

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized after the opening for those quoting verbally (in open outcry):

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

#### Relief

Relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.

#### Batching

The Exchange may aggregate individual violations and treat such violations as a single offense.

#### FINE SCHEDULE (Implemented on a one-year running calendar basis)

1st Occurrence	Warning letter
2nd Occurrence	Warning letter
3rd Occurrence	Warning letter
4th Occurrence	\$250.00
5th Occurrence	\$500.00
6th Occurrence	\$1,000.00
7th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **E-6 Failure to Comply with an Exchange Inquiry**

In addition to E-2 of the Options Minor Rule Plan, whenever the Exchange staff requests that a floor broker identify clients with respect to an order, regardless of whether that order has been executed or not, the floor broker must immediately provide the Exchange with sufficient information to reveal the identity of the floor broker's clients. If the floor broker fails to comply immediately with such request, the fines in the schedule above apply.

#### FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **E-7 Affiliations**



In addition to F-3 of the Options Minor Rule Plan, Floor members shall adhere to the following requirements:

- (a) Pursuant to [Rule 1020]Options 2, Section 12, an ROT is prohibited from receiving communications about trading interests or orders from an affiliated Floor Broker's customers prior to the respective trading crowd receiving the same information. In this regard, the ROT is prohibited from answering telephones at the affiliate's post, except that he may access a telephone at the post to communicate with associates of his Registered Options Trading Firm.
- (b) Any exchange of interests to trade between an ROT or his Firm and an affiliated Floor Broker Firm will require that the same information be provided to the respective trading crowd and shall also require that the crowd be advised that the order is presented for execution under Options 8, Section 30(c) - Solicited Orders.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-8 Splitting Orders**

[ROT's]Floor Market Makers of the same Firm, affiliated or financially affiliated [ROT's]Floor Market Makers, when bidding or offering at the same price for the same option, are to be treated as one interest for purpose of splitting an order in the trading crowd.

For the purposes of this Advice, affiliated [ROT's]Floor Market Maker's are [ROT's]Floor Market Makers required to report such affiliations pursuant to General 3, Section 11[Rule 908] and financially affiliated [ROT's]Floor Market Maker's are [ROT's]Floor Market Maker's required to report financial arrangements pursuant to [Rule 783]General 9, Section 7.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-9 Responsibility for Assigning Participation**

- a) In each instance where a member effects a transaction on the options or foreign currency options floor, he must make reasonable efforts to ensure that a meeting of the minds occurred with the contra-side as to confirming the contra-side's participation in the trade. In trades where more than one contra-side is involved, each contra-side must immediately make known to the largest participant his understanding as to his respective level of participation in the trade.
- b) No such contra-side who has participated in the trade shall leave the crowd until the level of his participation in the trade has been confirmed by the largest participant.
- c) No person in the crowd shall submit a ticket for matching on a trade when that person is not due participation in the trade.
- d) Disputes as to participation on a trade shall be resolved by a majority vote of those persons present in the crowd during the relevant time or, if not so settled, then by an Options Exchange Official.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-10 Executing Multi-leg and Synthetic Option Orders**

A multi-leg order (i.e. spread type order) as defined in Options 8, Section 32(e) may be executed as a single transaction at a single credit or debit in accordance with Options 8, Section 24(d) and the requirements below:

- (a) Bids (offers) for the total hedge order must be solicited from the crowd on the basis of a total credit or debit.
- (b) In the case of an "options-only hedge order" (spread, straddle, and combination orders), the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:
- (1) no option leg is executed outside of the established bid/offer for that option contract;  
and
  - (2) at least one option leg is executed at a price better than the established bid/offer for that option contract.

(c) In the case of conversions and reversals, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

- (1) no option leg is executed outside of the established bid/offer for that option contract;
- (2) at least one option leg is executed at a price better than the established bid/offer for that option contract.

(d) In the case of a synthetic option order, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established market for the individual legs (on a buy-on-the-offer and sell-on-the-bid basis), provided that the option leg is executed at a price better than the established bid/offer for that option contract.

Once the credit or debit execution price to a multi-leg option order is agreed upon, the stock portion of the order, if any, must be effected at or near the same time as the execution of the option portion.

#### FINE SCHEDULE

Fine not applicable.

#### **E-11 Two-Way, Three Way and Multi-Spread Transactions (FOREIGN CURRENCY OPTION ONLY)**

Execution of spread type orders (spread, straddle and combination orders, as defined in Options 8, Section 32(f) in foreign currency options must be effected in accordance with the provisions of Options 8, Section 24(d), which requires that a foreign currency options participant holding a spread type order must first determine that the order is best served by bidding or offering on the basis of a total credit or debit before executing the order as a single transaction. Options 8, Section 24(d), also requires the participant to ensure that at least one leg of the order is executed at a better price than the established bid/offer for that option and that no leg is executed at a price outside of the established bid/offer for that option.

Options 8, Section 24(g) governing ration spread type orders in foreign currency options permits the size of the respective legs of such orders to be either equal in size or related by a permissible ratio (two-to-one, three-to-one, and three-to-two). In addition, spread type orders may be comprised of two or more legs, as described below:

#### **Two-Way Transaction**

(a) A two-way transaction is comprised of two legs, which can be either equal in size or differ by a permissible ratio (two-to-one, three-to-one, and three-to two), forming one spread type. See Options 8, Section 24(d)

#### **Three-Way Transaction**

(b) A three-way transaction is comprised of three legs forming one spread type where (1) the order sizes of each of the three legs are equal to each other, or (2) the combined order size of any two legs on the same side of the market is either equal to the order size of the third leg or differs from the order size of the third leg by a permissible ratio (two-to-one, three-to-one, and three-to-two). See Options 8, Section 24(f).

### **Multi-Spread Transaction**

(c) A multi-spread transaction, as defined in Options 8, Section 32(e), combines two of the same spread type orders for execution at a total net credit or debit, such as: a two-way order with another two-way order of the same spread type; a three-way order with another three-way order of the same spread type; or a two-way order with a three-way order of the same spread type. In addition, a multi-spread transaction may combine a spread type order with a ratio spread type order of the same spread type. In combining spread type orders to create a multi-spread transaction, each individual spread must meet the execution requirements of Options 8, Section 24(h) at least one leg of each spread must be executed at a price better than the established bid/offer for that option and no leg of any spread may be executed at a price outside of the established market for that option.

### **FINE SCHEDULE**

Fine not applicable.

### **E-12 Intra-Day Addition of Strike Prices**

The Exchange may, under appropriate circumstances, list and make available for trading on an intra-day basis one or more option series with new strike prices.

For the purposes of this Advice, appropriate circumstances may include instances where:

- (1) bona fide off floor customer interest is expressed to effect a sizable transaction at a strike price at or within 5 points of the price of the underlying instrument, or within a comparable amount of ticks respecting foreign currency options; or
- (2) an operational error in not adding a requested exercise strike price has occurred. Customer interest includes institutional (Firm), corporate or customer interest expressed directly to the Exchange or through the customer's Floor Brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. Only strike prices which are consistent with the provision in [Rules 1012 and 1101A]Options 4, Section 5 and Options 4A, Section 12 imposing a "reasonably related" standard for listing additional strike prices may be added intra-day pursuant to this Advice.

In each instance where such approval has been granted, prior written disclosure of each strike price to be added shall be disseminated to the trading floor and electronically to the options members. No trading may occur in any such series until such dissemination has taken place.

New series of equity options, options on Exchange Traded Fund Shares and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in [Commentary .10 to Rule 1012]Options 4, Section 5 at Supplementary Material .10.

#### FINE SCHEDULE

Fine not applicable

#### **E-13 Clerks in the Crowd**

Clerks, other than [Specialist]Lead Market Maker clerks, are prohibited from a sustained presence in the trading crowd. In addition, clerks are prohibited from requesting market quotations from a [Specialist]Lead Market Maker or ROT, except that a [Specialist]Lead Market Maker clerk, under the supervision of a [Specialist]Lead Market Maker, may request the crowd's market in order to update disseminated markets or ascertain parity/priority splits in relation to the execution of an order. For purposes of this Advice, a clerk is any associated person not registered or eligible to effect transactions on the floor as a [Specialist]Lead Market Maker, ROT or Floor Broker, including member organizations whose membership privileges have been suspended or terminated as well as other member organizations without trading privileges.

A sustained presence shall be a period of time beyond such time that would, under the prevailing circumstances, be needed by the clerk to complete the allowable business function which brought the clerk to that crowd in the first place.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **E-14 Fingerprinting Floor Personnel**

Member organizations are required to comply with Section 17(f) of the Securities Exchange Act of 1934 respecting the fingerprinting of required employees. Applicants for a permit must also be fingerprinted. Such fingerprints must be submitted to the FINRA for identification and appropriate processing prior to any employee performing the functions listed in SEC Rule 17f-2.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00

3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-15 Options Trading Floor Training**

All members and persons employed by or associated with a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that member's or person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the trading floor. In addition, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.

Failure to attend the scheduled mandatory training described above may result in the issuance of a fine in accordance with the fine schedule below.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-16 Communications and Equipment**

(1) **Registration.** Members and member organizations must register, prior to use, any new telephone to be used on the Options floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the phone must be re-registered with the Exchange. At the time of registration, members and representatives of member organizations must sign a statement that they are aware of and understand the Rules and procedures governing the use of telephones on the Options floor.

(2) **Capacity and Functionality.** No wireless telephone used on the Options floor may have an output greater than one watt. No person on the Options floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers intercoms, walkie-talkies and any similar device. Speed-dialing features are permitted on any member telephone.

**(3) [Specialists]Lead Market Makers and [Registered Options Traders]Floor Market Makers.**

(a) [Specialists]Lead Market Makers and [Registered Options Traders ("ROTs")]Floor Market Makers may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options floor).

(b) [ROTs]Floor Market Makers located off the Options floor may not place an order by calling a Floor Broker who is present in the trading crowd. [ROTs]Floor Market Makers located off the Options floor may not otherwise place an order by calling the [Specialist]Lead Market Maker phone in the trading crowd. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

**(4) Floor Brokers.**

(a) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options floor. These telephones may not include a call forwarding feature. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(b) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

**(5) Clerks.**

(a) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(b) Stock Execution clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(c) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Options floor. In such circumstances, the Exchange will first consider restricting the use of such phones by Stock Execution Clerks, and then by Floor Broker Clerks.

**(6) General Access In-House Phones.** The general access in-house telephones located outside of the trading post areas may be used by any member, clerk or Floor Broker to communicate with persons located on the Options floor or within the Exchange complex.

(7) **Telephone Records.** Members must maintain their cellular or cordless telephone records, including logs of calls placed, for a period of not less than one year. The Exchange reserves the right to inspect and/or examine such telephone records.

(8) **Exchange Liability.** The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

FINE SCHEDULE (Implemented on a three year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-17 Solicitation of Quotations**

In response to a Floor Broker's solicitation of a single bid or offer, the members of a trading crowd (including the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the [Specialist]Lead Market Maker and [ROTs]Floor Market Makers).

### **F. REGULATIONS Pursuant to Rule 9216(c)**

#### **Regulation 1 - Smoking and Alcohol**

Smoking is prohibited on the trading floor and the lower level areas adjacent to the trading floor except for those areas specifically designated for smoking.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

Alcoholic beverages are prohibited on the trading floor and the lower level areas adjacent to the trading floor.



1st Occurrence	\$1,000.00
2nd Occurrence	Sanction is discretionary with Phlx Regulation Department

## **Regulation 2 - Food, Liquids and Beverages, Trash, Litter and Vandalism**

### (a) Food, Liquids and Beverages

Food, liquids and beverages while allowed on the trading floor, should be kept and consumed in a way that does not unreasonably interfere with others. All drinks should be in cans or covered containers. Food and drink may not be consumed while in transit on the trading floor.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

### (b) Trash and Litter

All debris resulting from the consumption of food and drink, and other non-business trash, must be properly disposed of. Throwing or dropping objects on the trading floor, including food or drink, is strictly prohibited. All trading posts/booths must be free of debris, trash or litter at the end of each trading day.

The following fine schedule will apply to a violation of this section:

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

### (c) Vandalism

The abuse, destruction, or theft ("Vandalism") of any property on the Exchange's premises, whether or not owned by the Exchange, is a serious offense and will be dealt with appropriately, including prompt disciplinary action.

The following fine schedule will apply to a violation of this section:

1st Occurrence	\$3,000.00 and restitution
2nd Occurrence	\$5,000.00 and restitution
3rd Occurrence	\$10,000.00 and restitution

4th and Thereafter      Sanction is discretionary with Phlx Regulation  
Department

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

### **Regulation 3 - Identification Badges/Access Cards**

(i) Identification badges must be worn chest high in full view and must accurately reflect the respective person's associations and affiliations.

1st Occurrence	Official Warning
2nd Occurrence	\$100.00
3rd Occurrence	\$200.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

(ii) Use of another person's Identification Badge or Access Card will carry a fine of \$250.00 for the first occurrence and \$500.00 for each subsequent occurrence. The fine may be assessed against both the user and the person who allowed such use.

### **Regulation 4 - Order**

(a) Members and associated persons shall not conduct themselves in a disorderly manner on the trading floor or on the premises immediately adjacent to the trading floor. Further, members, participants and associated persons shall not conduct themselves in an indecorous manner that is disruptive to the conduct of business on the trading floor, including but not limited to the use of profanity.

The fines to be imposed for such violations shall be as follows:

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department

(b) Members and associated persons shall not direct any threatening, abusive, harassing or intimidating speech or conduct at anyone while on the trading floor or on the premises immediately adjacent to the trading floor. The fines to be imposed for such violations shall be as follows:

1st Occurrence	\$2,500.00
2nd Occurrence	\$5,000.00

3rd and thereafter           Sanction is discretionary with Phlx Regulation  
Department

(c) Members and associated persons shall not possess a firearm on the trading floor or on the premises immediately adjacent to the trading floor. As stated in Rule 9216(c), members, participants and associated persons shall be excluded from the floor if they possess a firearm. In addition, the fines to be imposed for such violations shall be as follows

1st Occurrence           \$5,000.00  
2nd Occurrence           Sanction is discretionary with Phlx Regulation  
Department

(d) Members and associated persons shall not possess illegal controlled substances on the trading floor or on the premises immediately adjacent to the trading floor.

1st Occurrence           \$5,000.00  
2nd Occurrence           Sanction is discretionary with Phlx Regulation  
Department

(e) The Exchange must report fines over \$1,000 to the Securities and Exchange Commission.

(f) Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

### **Regulation 5 - Visitors**

Non-member visitors will be permitted on the trading floor at the discretion of an Exchange official or Options Exchange Official. All visitors must be signed in by a member or Exchange official and accompanied at all times by a member, associated person or an Exchange official.

1st Occurrence           Official Warning  
2nd Occurrence           \$50.00  
3rd Occurrence           \$100.00  
4th Occurrence           \$200.00  
5th and Thereafter       Sanction is discretionary with Phlx Regulation  
Department

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

Non-member visitors who are performing contract work at the Exchange on behalf of a member are required to provide, upon request, a certificate of insurance evidencing Professional Liability Insurance in respect of all claims for injury, loss or damage arising out of any errors, acts or omissions in the performance of his or her duties for a sum of not less than \$1,000,000 for any

one occurrence or series of occurrences and list Nasdaq PHLX as an insured. This includes any non-member visitors who are requesting access to perform any type of work at the Exchange or are utilizing any building facilities.

1st Occurrence	\$1,000.00
2nd Occurrence	\$5,000.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

### **Regulation 6 - Dress**

(a) The Dress Code must be complied with at the point of entry to the trading floor. The Dress Code is in effect on the trading floor before, during and after trading hours. The Dress Code outlining acceptable and unacceptable dress for members and member organization staff, and changes thereto, shall be communicated to members and member organizations by the Exchange in writing. Changes to the Dress Code shall be effective three business days after they are so communicated. In addition, the Dress Code will be posted in at least one visible location on the trading floor of the Exchange.

(b) Each member will be responsible for compliance with this Regulation; and each member organization will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

The following is the fine schedule for dress code violations:

1st Occurrence	\$100.00
2nd Occurrence	\$250.00
3rd Occurrence	\$500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department

### **Regulation 7 - Proper Utilization of the Security System**

(a) Attempt to Circumvent the Security System of the Exchange

Any member or employee of a member organization who wishes to enter or exit the Exchange trading facilities must do so through the areas where the Exchange security systems are located.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

(b) Required Filing for Floor Member Organization Employee Status Notices with the Exchange

Following the termination of, or the initiation of a change in the trading status of any member or any non-member/clerk and trading floor personnel including clerks, interns, stock execution clerks and any other associated person, of member organizations who have been issued an Exchange access card and trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm, principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange Department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Further, every effort should be made to obtain the employee's access card and trading floor badge and to submit these to the appropriate Exchange Department.

1st Occurrence	\$100.00
2nd Occurrence	\$200.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

(c) Required Filing for the Termination of, or the Initiation of a Change in the Status of, a Business Relationship between member organizations and their Clearing Organizations

Following the commencement or termination of a clearing arrangement between member organizations and their clearing organization, a completed "Clearing Arrangement Notice" must be submitted to the Exchange as soon as possible, but no later than 9:30 AM the next business day by such clearing organization.

1st Occurrence	\$100.00
2nd Occurrence	\$200.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

## **Options 9 Business Conduct**

### **Section 1. Conduct Inconsistent with Just and Equitable Principles of Trade**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in conduct inconsistent with just and equitable principles of trade.

#### *Supplementary Material to Options 9, Section 1*

.01 Without limiting the generality of Options 9, Section 1, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage, directly, or indirectly, in any conduct that threatens, harasses, intimidates, constitutes a "refusal to deal," or retaliates against any member, member organization, person associated with or employed by a member or member organization, or other market participant because such member, member organization, person associated with or employed by a member or member organization, or other market participant

has: (i) made a proposal to any exchange or other market to list or trade any option class; (ii) advocated or proposed to list or trade an option class on any exchange or other market; (iii) commenced making a market in or trading any option class on any exchange or other market; (iv) sought to increase the capacity of any options exchange or the options industry to disseminate quote or trade data; (v) sought to introduce new option products; or (vi) acted, or sought to act, competitively.

.02 Without limiting the generality of Options 9, Section 1, it is conduct inconsistent with just and equitable principles of trade for any member, member organization, or person associated with or employed by a member or member organization to engage in conduct that has the intent or effect of unbundling equity securities orders for execution for the primary purpose of maximizing a monetary or in-kind amount received by the member, member organization, or person associated with or employed by a member or member organization as a result of the execution of such equity securities orders. For purposes of this section, "monetary or in-kind amounts" shall be defined to include commissions, gratuities, payments for or rebate of fees resulting from the entry of such equity securities orders, or any similar payments of value to the member, member organization, or person associated with or employed by a member or member organization.

## **Section 2. Reserved**

## **Section 3. Reserved**

## **Section 4. Reserved**

## **Section 5. Acts Detrimental to the Interest or Welfare of the Exchange**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in acts detrimental to the interest or welfare of the Exchange.

### Supplementary Material to Options 9, Section 5

.01 Acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, the following:

- (a) conviction or guilty plea to any felony charge or any securities or fraud-related criminal misconduct;
- (b) use or attempted use of unauthorized assistance while taking any securities industry or Exchange-related qualification examination;
- (c) failure to make a good faith effort to pay any fees, dues, fines or other monies due and owing to the Exchange;
- (d) destruction or misappropriation of Exchange or member property;

**Section 6. Reserved****Section 7. Reserved****Section 8. Reserved****Section 9. Reserved****Section 10. Reserved****Section 11. Reserved****Section 12. Reserved****Section 13. Position Limits**

(a) Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another participating exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that, as a result of such transaction, the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly control an aggregate position: (a) of more than 25,000, 50,000, 75,000, 200,000 or 250,000 option contracts (whether long or short), put or call option contracts on the same side of the market relating to the same underlying security, which limit is determined in accordance with section (g)(1)(a) herein, in the case of options on a stock or Exchange-Traded Fund Share, (except with respect to put or call option contracts overlying the PowerShares QQQ Trust ("QQQ")® for which the position limit shall be 1,800,000 contracts on the same side of the market; options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") for which the position limit shall be 1,800,000 contracts on the same side of the market; options overlying the iShares® Russell 2000® ETF ("IWM"), for which the position limit shall be 1,000,000 contracts; options overlying the Diamonds Trust ("DIA"), for which the position limit shall be 300,000 contracts on the same side of the market; options overlying the iShares MSCI Emerging Markets ETF ("EEM"), for which the position limit shall be 1,000,000 contracts on the same side of the market; iShares China Large-Cap ETF ("FXI"), iShares MSCI EAFE ETF ("EFA"), iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), and iShares MSCI Japan ETF ("EWJ"), for each of which the position limit shall be 500,000 on the same side of the market; and options overlying the position limit shall be 500,000 on the same side of the market; and options overlying the Standard and Poor's Depository Receipts ("SPDRs"), which shall have no position limits) or (b) with respect to a stock or Exchange-Traded Fund Share option not dealt in on the Exchange, exceeding the applicable position limit established by the exchange on which the option contract is transacted, when the member or member organization is not a member of that other exchange, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or

more classes or series. Position limits for foreign currency options shall be determined in accordance with section (j) herein.

(b) Reserved.

(c) It shall be the responsibility of each member and member organization accepting orders for opening transactions (purchase or writing) in options contracts of any class of options dealt in on the Exchange to inform their customers of the applicable position limits and not to accept any such orders from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such position limits.

(d) For the purpose of computing the aggregate position limits established by this Rule, long positions in call option contracts are aggregated with short positions in put option contracts and short positions in call option contracts are aggregated with long positions in put option contracts.

(i) Positions in option contracts overlying 10 shares of stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security ("Mini Options"), shall be aggregated with positions in regular size stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security option contracts, for purposes of this rule, provided that ten (10) Mini Option contracts shall count as one (1) regular size option contract.

(e) The Exchange will not approve any opening purchase or writing transaction or the carrying of any position that would exceed the limits established by this Rule except in highly unusual circumstances. An exemption will be granted to a member or member organization only under the following circumstances:

(i) the exemption request must be submitted in writing to an Options Exchange Official and set forth the facts justifying the exemption;

(ii) if the exemption is sought by a registered options trader, the registered options trader must hold an assignment in the option;

(iii) the applicant's position must be near the current position limit (generally within 10% of the current limit); and

(iv) the character of trading in the option has been such as to support an exemption request; the applicant's participation in the market in the period prior to the exemption request has been significant in terms of daily volume.

A position limit exemption requires the approval of an Options Exchange Official. The exemption is effective at the time a decision is communicated; retroactive exemptions will not be granted. The size and duration of an exemption will be determined on a case-by-case basis. An exemption usually will be granted only until the nearest expiration.



(f) Lead Market Makers. The Exchange may establish higher position limits for Lead Market Makers' transactions than those applicable with respect to other accounts. Whenever a Lead Market Maker reasonably anticipates that he may exceed such position limits in the performance of his function of assisting in the maintenance of a fair and orderly market, he must seek an exemption in writing in accordance with this Rule.

A position limit exemption requires the approval of an Options Exchange Official. The exemption is effective at the time a decision is communicated; retroactive exemptions will not be granted. The size and duration of an exemption will be determined on a case-by-case basis. An exemption usually will be granted only until the nearest expiration.

(g) Equity Option Position Limits.

(i) The position limit shall be 250,000 contracts for options:

(a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 100,000,000 shares during the most recent six-month trading period; or

(b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding;

(ii) The position limit shall be 200,000 contracts for options:

(a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 80,000,000 shares during the most recent six-month trading period; or

(b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 60,000,000 shares during the most recent six-month trading period and has at least 240,000,000 shares currently outstanding;

(iii) The position limit shall be 75,000 contracts for options:

(a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 40,000,000 shares during the most recent six-month trading period; or

(b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 30,000,000 shares during the most recent six-month trading period and has at least 120,000,000 shares currently outstanding.

(iv) The position limit shall be 50,000 contracts for options:

(a) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 20,000,000 shares during the most recent six-month trading period; or

(b) on an underlying stock or Exchange-Traded Fund Share which had trading volume of at least 15,000,000 shares during the most recent six-month trading period and has at least 40,000,000 shares currently outstanding.

(v) The position limit shall be 25,000 contracts for all other options.

(h) The Exchange will review the volume and outstanding share information of all underlying stocks and Exchange-Traded Fund Shares every six months to determine which limit shall apply. A higher limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher limit is met at the time of an intervening six-month review. However, if, subsequent to a six-month review, an increase in volume and/or outstanding shares would make a stock or Exchange-Traded Fund Share eligible for a higher position limit prior to the next review, the Exchange in its discretion may immediately increase such position limit.

(i) Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a purchase or sale transaction (whether on the Exchange or on or through the facilities of, or otherwise subject to the rules of, another national securities exchange or national securities association) in a stock index warrant if the member or member organization has reason to believe that as a result of such transaction the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly, control an aggregate position in a stock index warrant issue, or in all warrants issued on the same stock index, on the same side of the market, in excess of the position limits specified in sections (c) and (d).

(j) Foreign Currency Option Position Limits

(i) The position limit shall be 300,000 contracts for options on the following foreign currency: the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona,

(ii) The position limit shall be 600,000 contracts for options on the following foreign currency: the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, and the New Zealand dollar

(iii) The position limit shall be 1,200,000 contracts for options on the following foreign currency: the Euro.

(iv) However, if a foreign currency option (FCO or WCO) and a PHLX FOREX Option™ are listed on the same underlying currency (e.g. a Euro foreign currency option and a Euro PHLX FOREX Option), then the position for each such option on the same underlying currency will be aggregated for purposes of determining compliance with the position limit established in this rule.

(k) Control exists, under General 1, Section 1, Options 1, Section 1, and Options 9, Section 15, when it is determined that an individual or entity (1) makes investment decisions for an account or accounts, or (2) materially influences directly or indirectly the actions of any person who makes investment decisions.

(a) In addition, control will be presumed in the following circumstances:

(1) among all parties to a joint account who have authority to act on behalf of the account;

(2) among all general partners to a partnership account;

(3) when an individual or entity (1) holds an ownership interest of 10 percent or more in an entity (ownership interest of less than 10 percent will not preclude aggregation), or (2) shares in 10 percent or more of profits and/or losses of an account;

(4) when accounts have common directors or management;

(5) where a person or entity has the authority to execute transactions in an account;

(b) Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. The Exchange will also consider the following factors in determining if aggregation of accounts is required:

(1) similar patterns of trading activity among separate entities;

(2) the sharing of kindred business purposes and interests;

(3) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;

(4) the degree of contact and communication between directors and/or managers of separate accounts.

(c) Initial determinations under this Interpretation shall be made by Regulatory staff of the Exchange. A member or customer directly affected by such a determination may ask the Exchange to reconsider but may not request any other review or appeal, except in the context of a disciplinary proceeding.

(l) Equity Option Hedge Exemptions. The following qualified hedge transactions and positions described in paragraphs 1-5 below shall be exempt from established position limits as prescribed under sections (g) and (d)(i) above. Hedge transactions and positions established pursuant to

paragraphs (6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under sections (g) and (d)(i).

- (1) Where each option contract is "hedged" or "covered" by 100 shares (10 shares in the case of a Mini Option) of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract the same number of shares represented by the adjusted contract; (i) long call and short stock; (ii) short call and long stock; (iii) long put and long stock; (iv) short put and short stock.
- (2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("reverse conversion").
- (3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long put is equal and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("conversion").
- (4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time of the position is established ("collar").
- (5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established ("reverse collar").
- (6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").
- (7) A listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

(8) For those strategies described under (2), (3), and (4) above, one component of the option strategy may be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

(9) An OTC option contract is defined as an option contract that is not listed on a National Securities Exchange or cleared at The Options Clearing Corporation.

(m) Firm Facilitation Exemption. A member organization may be exempt from established position limits for equity option positions (including Exchange-Traded Fund Share option positions) held in its proprietary account where such position will facilitate an order for a customer of that member organization, provided that such position satisfies the following:

(i) Maximum limit: the facilitating position may exceed the applicable position limit by two times that limit, in addition to the allowable amount. For example, where the position limit is 25,000 contracts, a firm facilitation exemption is available for an additional 50,000 contracts. This exemption is in addition to any other exemptions available under Exchange Rules.

(ii) Approval Procedure: prior approval from an Options Exchange Official and the submission of a complete Firm Facilitation Form, which must be kept current, are required. Approval may be granted on the basis of verbal representations, in which case the member organization shall submit to the Regulatory staff of the Exchange a completed form respecting such approval within two business days or the time specified when approval is granted. A member organization may request an exemption based on interest expressed by its customer, prior to obtaining an order. This exemption is not available where either the customer or facilitation order are all or none or fill or kill orders.

(a) The facilitation firm shall promptly provide the Exchange with information or documents requested concerning the exempted and hedging positions. A copy of all applicable order tickets must be provided to the Regulatory staff of the Exchange on the day of execution.

(b) The facilitation firm shall establish and liquidate its own as well as its customer's option, stock and Exchange-Traded Fund Share positions in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes nor with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The facilitation firm shall notify the Exchange of any material change in the exempted option position or hedge. The facilitation firm shall not increase the exempt option position once it is liquidated, unless prior approval is again received pursuant to this Rule.

(iii) Facilitation Procedure: compliance with the facilitation procedures of Options 8, Section 30(b) is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate. is required, such that the terms of the order are disclosed

and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate.

(iv) Hedge: to remain qualified, the facilitation firm must hedge all exempt option positions within five business days after the execution of the order and furnish the Exchange's Regulatory staff with documentation reflecting the resulting hedged positions.

(v) Violations of these requirements, absent reasonable justification or excuse, shall result, in addition to any disciplinary action, in withdrawal of the exemption and may form the basis for subsequent denial of an application for an exemption hereunder.

(n) Delta-Based Equity Hedge Exemption. The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules, interpretations and policies.

(i) An equity option position of a member or non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed in this General 1, Section 1, Options 1, Section 1, subject to the following:

(a) The term "delta neutral" refers to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.

(1) In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments as defined in subparagraph (A) of Supplementary .04(A), in accordance with Options 4A, Section 6 - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.

(b) An equity option position that is not delta neutral shall be subject to position limits in accordance with this Rule (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit.

(1) The term "options contract equivalent of the net delta" means the net delta divided by the number of shares that equate to one option contract on a delta basis.

(2) The term "net delta" means, at any time, the number of shares and/or units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.

(c) A "permitted pricing model" means -

- (1) A pricing model maintained and operated by The Options Clearing Corporation ("OCC Model");
- (2) A pricing model maintained and used by a member subject to consolidated supervision by the Commission pursuant to Appendix E of Commission rule 15c3-1, or by an affiliate that is part of such member's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such member's consolidated supervised holding company group;
- (3) A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company Act of 1956, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:
  - (i) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or
  - (ii) the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;
- (4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to

time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a member) may rely on this subparagraph (c)(4); or

(5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a member) may rely on this subparagraph (c)(5).

(d) Effect on Aggregation of Accounts

(1) Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such member or non-member affiliate.

(2) Notwithstanding subparagraph (d)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that:

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in section (k) to this Rule; and

(ii) the entity has provided the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(3) Notwithstanding subparagraph (d)(1) or (d)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange, each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and



(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate.

(e) Obligations of Members and Affiliates

(1) A member that relies on this exemption for a proprietary equity options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (c) in this Rule; and

(ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The equity option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

(3) A member carrying an account that includes an equity option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member:

(i) a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (c) in this Rule; and

(ii) a written statement confirming that such non-member affiliate:

(a) is relying on this exemption;

(b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(c) will promptly notify the member if it ceases to rely on this exemption;

(d) authorizes the member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the Exchange such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(f) Reporting.

Each member (other than an Exchange market-maker using the OCC model) that holds or carries an account that relies on this exemption shall report, in accordance with Options 6E, Section 2, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to section (n)(1)(d) herein shall also report, in accordance with Options 6E, Section 2, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule, the net delta and the options contract equivalent of the net delta of such position.

(g) Records.

Each member relying on this exemption shall:

(i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and

(ii) produce such information to the Exchange upon request.

(o) Exemptions Granted by Other Options Exchanges. A member may rely upon any available exemptions from applicable position limits granted from time to time by another options exchange for any options contract traded on the Exchange provided that such member:

(1) provides the Exchange with a copy of any written exemption issued by another options exchange or a written description of any exemption issued by another options exchange other than in writing containing sufficient detail for Exchange Regulatory staff to verify the validity of that exemption with the issuing options exchange, and

(2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the member's trading on the Exchange.

## **Section 14. Reserved**

## **Section 15. Exercise Limits**

(a) Except as set forth in subparagraph (c) herein, no member or member organization shall exercise, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any

customer, a long position in any option contract of a class of options dealt in on the Exchange (or, respecting an option not dealt in on the Exchange, another exchange if the member or member organization is not a member of that exchange) if as a result thereof such member or member organization, or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that class (put or call) as set forth as the position limit in Options 9, Section 13, in the case of options on a stock or on an Exchange-Traded Fund Share, on a foreign currency, or stock index warrants; without regard to the exchange on which the options were purchased. Whether option or warrant positions should be aggregated under this Rule shall be determined in the manner described in the Supplementary Material to Options 9, Section 13. Index option position and exercise limits are governed by Options 4A, Sections 6 and 10.

(b) It shall be the responsibility of each member and member organization accepting orders for the purchase (in opening transactions) of option contracts of a class of options dealt in on the Exchange to inform their customers of the applicable exercise limits and not to accept any exercise of an option contract from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such exercise limits.

(c) For a member or a member organization that has been granted an exemption to position limits pursuant to Options 9, Section 13(l)(Equity Option Hedge Exemptions) or Options 9, Section 13(n)(Delta-Based Equity Hedge Exemption), the number of contracts which can be exercised over a five (5) business day period shall equal the member's or member organization's exempted position.

(d) The Exchange may establish different limits from time to time either across the board for all underlying securities or underlying foreign currencies covered by options traded in the Exchange or in respect to particular classes.

## **Section 16. Reserved**

### **Section 17. Liquidation Of Positions**

Whenever the Exchange shall determine that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts of one or more classes or series dealt in on the Exchange in excess of the applicable position limit established pursuant to Options 9, Section 13, it may direct all members and member organizations carrying a position in option contracts of such classes or series for such person or persons to liquidate such position as expeditiously as possible consistent with the maintenance of an orderly market. Whenever such a direction is issued by the Exchange, no member organization receiving notice thereof shall accept any order to purchase, sell or exercise any option contract for the account of the person or persons named in such directive, unless in each instance express approval therefore is given by the Exchange, or until such directive is rescinded.

**Section 18. Limit On Uncovered Short Positions**

Whenever the Exchange shall determine in light of current conditions in the Exchange options market or in the markets for underlying stocks, Exchange-Traded Fund Shares or foreign currencies, as the case may be, that there are outstanding an excessive number of uncovered short positions in option contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given class dealt in on the Exchange are uncovered, the Exchange may prohibit any further opening writing transactions (whether on the Exchange or on another Participating Exchange) in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class, as it deems appropriate in the interests of maintaining a fair and orderly market in such option contracts or in the underlying stocks or Exchange-Traded Fund Shares (in the case of options on stocks or Exchange-Traded Fund Shares), or otherwise deems advisable in the public interest or for the protection of investors. The Exchange may exempt transactions of Lead Market Makers from restrictions imposed under this Rule and it shall rescind such restrictions upon its determination that they are no longer appropriate.

**Section 19. Other Restrictions on Exchange Options Transactions and Exercises**

(a) Phlx may impose such restrictions on transactions or exercises in one or more series of options of any class traded on Phlx as the Exchange's Regulation Department in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

- i. During the effectiveness of such restrictions, no member or member organization shall, for any account in which it has an interest or for the account of any customer, engage in any transaction or exercise in contravention of such restrictions.
- ii. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, no restriction on exercise under this Section may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.
- iii. Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:
  - (1) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the Rules of The Options Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be

documented, in a form prescribed by Phlx Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

(2) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of an option contract expiring on a day that is not a business day, the last business day prior to their expiration;

(3) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt pursuant to the procedures described in Options 3, Section 9 and Options 4A, Section 18, exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (a)(iii)(3) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

(4) Phlx may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

(b) Whenever the issuer of a security underlying a call option traded on Phlx is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that Phlx impose restrictions upon all opening writing transactions in such options at a "discount" where the resulting short position will be uncovered ("uncovered opening writing transactions").

i. In addition to a request, the following conditions are necessary for the imposition of restrictions:

(1) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

(2) the underwriters agree to notify Phlx Regulation upon the termination of their stabilization activities; and

(3) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a "minus" or "zero minus" tick.

ii. Upon receipt of such a request and determination that the conditions listed above are met, Phlx Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after members or member organizations shall have been notified and shall terminate such restrictions upon request of the underwriters or

when Phlx Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

iii. For purposes of paragraph (b) of this Rule, an uncovered opening writing transaction in a call option will be deemed to be effected at a "discount" when the premium in such transaction is either:

(1) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option;  
or

(2) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

## **Section 20. Reserved**

### **Section 21. Anti-Money Laundering Compliance Program**

(a) Each member and member organization for which the Exchange is the Designated Examining Authority, shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et. seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member's anti-money laundering program must be approved, in writing, by a representative of its senior management staff. The anti-money laundering programs required by this Rule shall include, at a minimum a requirement to:

(1) Establish and implement policies, procedures and controls that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for independent testing for compliance to be conducted by member personnel or by a qualified outside party;

(4) Designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and controls of the program; and

(5) Provide ongoing training for appropriate personnel.

**Section 22, Reserved****Section 23, Reserved****Section 24. Violation Of By-Laws And Rules Of Options Clearing Corporation**

A member, member organization or director of a member organization that is a corporation who or which has been determined in an Exchange disciplinary proceeding to have violated any provision of the rules of The Options Clearing Corporation with respect to the reporting, clearance or settlement of any Exchange options transaction, shall be subject to the same penalty or penalties as may be imposed for violation of an Exchange Rule.

**Options 10 Doing Business with the Public****Section 1, Reserved****Section 2. Registration of Options Principals**

(a) No member or member organization or individual associated with a member organization shall be approved to transact options business with the public until such persons, who are designated as Options Principals, have been approved by and registered with the Exchange. Persons engaged in the supervision of options sales practice or a person to whom the designated general partner or executive officer (pursuant to Options 10, Section 7) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals.

(b) *Foreign Currency Options-Qualified Customer Personnel*—Registered Representatives of a member organization may solicit or accept customer orders for foreign currency options. Otherwise, an Application for Waiver of Series 7 Examination may be submitted describing and certifying at least six months of options-related experience. Such waiver is not automatic, but is subject to approval based on the information contained in the application.

**Section 3, Reserved****Section 4, Reserved****Section 5, Reserved****Section 6. Opening of Accounts**

(a) No member or member organization shall accept an order from a customer to purchase or write an option contract or currency or index warrant contract unless the customer's account has been approved for options trading in accordance with the provisions of this Rule. In addition, no member or member organization shall accept an order from a customer to purchase or write a foreign currency option contract unless such customer's account has been specially approved by a designated Foreign Currency Options Principal of such member or member organization, in writing, for transactions in foreign currency options. Such approval to engage in foreign currency

options transactions shall be based upon the facts known to the member or member organization concerning the customer and his investment objectives and financial situations.

(b) *Diligence in Opening Accounts*—In approving a customer's account for options transactions, a member or member organization shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information which shall be retained in accordance with Options 6, Section 1 and Options 10, Section 7. Based upon such information, the branch office manager or other Registered Options Principal shall approve, in writing, the customer's account for options transactions; provided, that if the branch office manager is not a Registered Options Principal, his approval shall within a reasonable time be confirmed by a Registered Options Principal.

(c) *Verification of Customer Background and Financial Information*—The background and financial information upon which the account of every new customer that is a natural person has been approved for options trading, unless the information is included in the customer's account agreement, shall be sent to the customer for verification within fifteen (15) days after the customer's account has been approved for options transactions. A copy of the background and financial information on file with the member organization shall also be sent to the customer for verification within fifteen (15) days after the member organization becomes aware of any material change in the customer's financial situation.

(d) *Agreements to Be Obtained* —Within fifteen (15) days after a customer's account has been approved for options transactions, a member organization shall obtain from the customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the rules of The Options Clearing Corporation and that such customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Rules 1001 and 1002.

(e) *Options Disclosure Documents to be Furnished* —At or prior to the time a customer's account is approved for options transactions, a member organization shall furnish the customer with one or more current Options Disclosure Documents in accordance with the requirements of Options 10, Section 13.

(f) Every member organization transacting business with the public in uncovered option contracts shall develop, implement and maintain specific written procedures governing the conduct of such business which shall include, at least, the following:

(1) Specific criteria and standards to be used in evaluating the suitability of a customer for uncovered short option transactions;

(2) Specific procedures for approval of accounts engaged in writing uncovered short option contracts, including written approval of such accounts by a Registered Options Principal;

(3) Designation of a specific Registered Options Principal qualified individual(s) as the person(s) responsible for approving accounts which do not meet the specific criteria and



standards for writing uncovered short option transactions and for maintaining written records of the reasons for every account so approved;

(4) Establishment of specific minimum net equity requirements for initial approval and maintenance of customer uncovered option accounts; and

(5) Requirements that customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short option transactions, at or prior to the initial uncovered short option transaction. See Options 10, Section 13(b).

*Supplementary Material to Options 10, Section 6*

.01 In fulfilling its obligations pursuant to paragraph (b)(ii) of this Rule with respect to options customers that are natural persons, a member organization shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

1. Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation)
2. Employment status (name of employer, self-employed or retired)
3. Estimated annual income from all sources
4. Estimated net worth (exclusive of family residence)
5. Estimated liquid net worth (cash, securities, other)
6. Marital status: number of dependents
7. Age
8. Investment experience and knowledge (e.g., number of years, size, frequency and types of transactions for options, stocks and bonds, and commodities)

In addition, the customer's account records shall contain the following information, if applicable:

- a. Source or sources of background and financial information (including estimates) concerning the customer
- b. Discretionary trading authorization: agreement on file; name; relationship to customer and experience of person holding trading authority
- c. Date Options Disclosure Document(s) furnished to customer

d. Nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions)

e. Name of registered representative

f. Name of ROP approving account; date of approval

g. Dates of verification of currency of account information

The member organization should consider utilizing a standard account approval form so as to ensure the receipt of all the required information.

.02 Refusal of a customer to provide any of the information called for in Supplementary Material .01 shall be so noted on the customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

.03 The requirement of paragraph (b)(iii) of this Rule for the initial and subsequent verification of customer background and financial information is to be satisfied by sending to the customer the information required in Items 1 through 6 of Supplementary Material .01 above as contained in the member's records and providing the customer with an opportunity to correct or complete the information. In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.

.04 Approval of the accounts of customers for foreign currency options transactions shall be conducted in accordance with this Rule and, in the case of customers that are natural persons, shall include consideration of the background and financial information that a member organization must seek to obtain under Supplementary Material .01 to this Rule. With respect to institutional foreign currency options customers (i.e., customers that are not natural persons), a member organization shall seek to obtain the following information.

(i) evidence of authority for the institution to engage in foreign currency options transactions (corporate resolutions, trust documents, etc.);

(ii) written designations of individuals within the institution authorized to act for it in connection with foreign currency options transactions; and

(iii) basic financial information concerning the institution.

.05 For purposes of Options 10, Section 6 (Conduct of Accounts for Options Trading), Options 10, Section 7 (Supervision of Accounts), and Options 10, Section 13 (Delivery of Options Disclosure Document), the term writing uncovered short option positions shall include combinations and any transactions which involve naked writing.

.06 Individuals who are delegated responsibility pursuant to Option 10, Section 7 for reviewing the acceptance of discretionary accounts, for approving exceptions to a member organization's

criteria or standards for uncovered options accounts, and for approval of communications, shall be designated as Options Principals and are required to qualify as an Options Principal by passing the Registered Options Principal Qualification Examination (Series 4).

.07 A person accepting orders from non-member customers (unless such customer is a broker-dealer registered with the Securities and Exchange Commission) is required to register with the Exchange and to be qualified by passing the General Securities Registered Representative Examination (Series 7).

.08 Definition of Branch Office. A "branch office" is any location where one or more associated persons of a member or member organization regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

- (i) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;
- (ii) any location that is the associated person's primary residence; provided that: (a) only one associated person, or multiple associated persons, who reside at that location and are members of the same immediate family, conduct business at the location; (b) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (c) neither customer funds nor securities are handled at that location; (d) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, advertisements and other communications to the public by such associated person; (e) the associated person's correspondence and communications with the public are subject to all supervisory provisions of the Exchange's Rules (f) electronic communications (e.g., e-mail) are made through the member's or member organization's electronic system; (g) all orders are entered through the designated branch office or an electronic system established by the member or member organization that is reviewable at the branch office; (h) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member or member organization; and (i) a list of the locations is maintained by the member or member organization;
- (iii) any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the member or member organization complies with the provisions of (b) through (h) of paragraph (ii) above;
- (iv) any office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulations) may be displayed);

(v) any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any advertisements or sales literature identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch locations are directly supervised;

(vi) the Floor of a registered national securities exchange where a member or member organization conducts a direct access business with public customers; or

(vii) a temporary location established in response to the implementation of a business continuity plan.

Notwithstanding the exclusions in subparagraphs (1) - (vii) above, any location that is responsible for supervising the activities of persons associated with a member or member organization at one or more non-branch locations of such member or member organization is considered to be a branch office.

For purposes of this Rule, the term "business day" shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

For purposes of this Rule, the term "associated person of a member or member organization" is defined as a member, allied member, or employee associated with a member or member organization.

For purposes of (ii)(h) above, written supervisory procedures shall include criteria for on-site for cause reviews of an associated person's primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

For purposes of (ii)(h) and (iii) above, written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm's size; (ii) the firm's organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location

has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person's customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person's or associated person's outside business activities, whether or not related to the securities business.

### **Section 7. Supervision of Accounts**

(a) Duty to Supervise; —The general partners or directors of each member organization that conducts a non-member customer business shall provide for appropriate supervisory control and shall designate a general partner or executive officer, who shall be identified to the Exchange, to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person, who may be the same individual designated pursuant to substantially similar New York Stock Exchange or FINRA rules shall:

(i) Delegate to qualified employees responsibilities and authority for supervision and control of each office, department or business activity, and shall provide for appropriate written procedures of supervision and control.

(ii) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(iii) Develop and implement written policies and procedures reasonably designed to independently supervise the activities of accounts serviced by branch office managers, sales managers, regional/district sales managers or any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified Registered Options Principal who:

A. Is either senior to, or otherwise independent of, the producing manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a producing manager receives an override or other income derived from that producing manager's customer activity that represents more than 10% of the designated person's gross income derived from the member organization over the course of a rolling twelve-month period, the member organization must establish alternative senior or otherwise independent supervision of that producing manager to be conducted by a qualified Registered Options Principal other than the designated person receiving the income.

B. If a member organization is so limited in size and resources that there is no qualified Registered Options Principal senior to, or otherwise independent of, the producing manager to conduct the reviews pursuant to paragraph (a)(iii)(A) of this Rule (for instance, the member organization has only one office, or an insufficient

number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a Registered Options Principal in compliance with paragraph (a)(iii)(A) of this Rule to the extent practicable.

C. A member organization relying on subparagraph (a)(iii)(B) of this Rule must document the factors used to determine that complete compliance with all of the provisions of subparagraph (a)(iii)(A) of this Rule is not possible, and that the required supervisory systems and procedures in place with respect to any producing manager comply with the provisions of subparagraph (a)(iii)(A) of this Rule to the extent practicable.

D. A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in subparagraphs (a)(iii)(A), (a)(iii)(B) and (a)(iii)(C) of this Rule will be deemed to have met such requirements.

(b) Maintenance of Customer Records—

(i) Background and financial information of customers who have been approved for options transactions shall be maintained at both the branch office servicing the customer's account and the principal supervisory office having jurisdiction over that branch office. Copies of account statements of options customers shall be maintained at both the branch office supervising the accounts and the principal supervisory office having jurisdiction over that branch for the most recent six-month period. With respect to the record retention responsibility of principal supervisory offices, customer information and account statements may be maintained at a location off premises so long as the records are readily accessible and promptly retrievable. Other records necessary to the proper supervision of accounts shall be maintained at a place easily accessible both to the branch office servicing the customer's account and to the principal supervisory office having jurisdiction over that branch office.

(ii) Upon the written instructions of a customer, a member may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (b) not to exceed three months if the customer is going abroad.

(iii) Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated by the designated general partner or executive officer pursuant to this Rule. Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not

less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

For purposes of this subparagraph (b)(iii), any person designated by the designated general partner or executive officer, pursuant to this Rule, must be a Registered Options Principal.

(c) Internal Controls.

(i) Member organizations must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each member organization's efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the annual report required by paragraph (g) of this Rule.

(ii) A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in subparagraph (c)(i) of this Rule will be deemed to have met such requirements.

(d) Annual Branch Office Inspections.

(i) Each branch office that supervises one or more non-branch locations must be inspected no less often than once each calendar year unless:

A. it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy this Rule's requirements for a particular branch office; or

B. based upon the written policies and procedures of such member organization providing for a systematic risk-based surveillance system, the member organization submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to paragraph (e) of this Rule.

(ii) Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct supervision and control of the branch office in question (i.e., not the branch office manager, or any person who directly or indirectly reports to such manager, or any person to whom such manager directly reports). Written reports reflecting the results of such inspections are to be maintained at the member organization for the longer of three years or until the next branch office inspection.

(iii) A member organization that complies with requirements of the New York Stock Exchange or FINRA that are substantially similar to the requirements in subparagraph

(d)(1) and (d)(2) of this Rule as well as to related requirements in subparagraphs (e) and (f) of this Rule will be deemed to have met such requirements.

(e) Risk -Based Surveillance and Branch Office Identification.

(i) Any member organization seeking an exemption, pursuant to subparagraph 7(d)(i)(B), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member organization's business model and product mix. Such policies and procedures must also, at a minimum, provide for:

A. The inspection of branches where developments during the year require a reconsideration of such branch's exemption;

B. A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and

C. A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.

(ii) For purposes of subparagraph (e)(i) of this Rule, the risk-based factors to be considered should include, but not necessarily be limited to, the following:

A. Number of Registered Representatives;

B. A significant increase in the number of Registered Representatives;

C. Number of customers and volume of transactions;

D. A significant increase in branch office revenues;

E. Incidence of concentrated securities positions in customer's accounts;

F. Aggregate customer assets held;

G. Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g. options, equities, mutual funds, annuities, etc.);

H. Numbers of accounts serviced on a discretionary basis;

I. Compliance and regulatory history of the branch, including:

(1) Registered Representatives subject to special supervision by the member organization, self-regulatory authorities, state regulatory authorities or the



Securities and Exchange Commission in years other than the previous or current year;

(2) Complaints, arbitrations, internal discipline, or prior inspection findings; and

(3) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.

J. Operational factors, such as the number of errors and account designation changes per Registered Representative;

K. Incidence of accommodation mailing addresses (e.g., post office boxes and "care of" accounts);

L. Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;

M. Experience, function (producing or non-producing) and compensation structure of branch office manager;

N. Branch offices recently opened or acquired; and

O. Changes in branch location, status or management personnel.

(iii) Notwithstanding any policies or procedures implemented pursuant to this Rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

A. Offices with one or more Registered Representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year.

B. Offices with 25 or more registered individuals;

C. Offices in the top 20% of production or customer assets for the member organization;

D. Any branch office not inspected within the previous two calendar years; and

E. Any branch office designated as exercising supervision over another branch office.

(f) Criteria for Inspection Programs. An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

(i) Safeguarding of customer funds and securities:

(ii) Maintaining books and records;

(iii) Supervision of customer accounts serviced by branch office managers;

(iv) Transmittal of funds between customers and Registered Representatives and between customers and third parties;

(v) Validation of customer address changes; and

(vi) Validation of changes in customer account information.

(g) Written Report. By April 1 of each year, each member organization that conducts a nonmember customer business shall submit to the Exchange a written report on the member organization's supervision and compliance effort during the preceding year and on the adequacy of the member organization's ongoing compliance processes and procedures. Each member organization that conducts a public customer options business shall also specifically include its options compliance program in the report. The report shall include, but not be limited to, the following:

(i) A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations.

(ii) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year's efforts of this nature.

(iii) Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas:

(A) antifraud and trading practices;

(B) investment banking activities;

(C) sales practices;

(D) books and records;

(E) finance and operations;

(F) supervision;

(G) internal controls; and

(H) anti-money laundering.

If any of these areas do not apply to the member organization, the report shall so state.

(iv) for each member organization, the designation of a general partner or principal executive officer as Chief Compliance Officer (which designation shall be updated on Schedule A of Form BD).

(v) A certification signed by the member organization's Chief Executive Officer (or equivalent), that:

A. The member organization has in place processes to:

(1) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,

(2) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and

(3) test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.

B. In member organizations, the Chief Executive Officer (or equivalent officer) conducted one or more meetings with the organization's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the organization's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.

C. In member organizations, the processes described in paragraph (g)(v)(A)(1) of this Rule, are evidenced in a report reviewed by the Chief Executive Officer ( or equivalent officer), Chief Compliance Officer and such other officers as the organization may deem necessary to make this certification, and submitted to the organization's board of directors and audit committee (if such committee exists) on or before April 1 of each year.

D. In member organizations, the Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in subparagraph (g)(v)(C) of this Rule and such other employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

A member organization that specifically includes its options compliance program in a report that complies with substantially similar requirements of the New York Stock Exchange or FINRA will be deemed to have met the requirements of paragraphs (g) and (h).

(h) Reports to Control Persons—By April 1 of each year, each member organization shall submit a copy of the report that Options 10, Section 7(g) requires the member organization to prepare to its one or more control persons or, if the member organization has no control person, to the audit committee of its board of directors or its equivalent committee or group. In the case of a control person that is an organization (a "controlling organization"), the member organization shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization's board of directors or its equivalent committee or group. For the purpose of this paragraph, "control person" means a person who controls the member organization, and the term "control" means the power to exercise a controlling influence over the management or policies of the member organization, unless such power is solely the result of an official position with the member organization. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of the member organization, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of the member organization, shall be presumed to control the member organization.

(i) Foreign Currency Options Principal—Every member handling public orders for foreign currency options shall designate and specifically identify to the Exchange one or more principals of the organization who shall be responsible for supervision of the member organization's non-member customer accounts and communications to customers insofar as such accounts and communications relate to foreign currency options. Each designated Foreign Currency Options Principal shall be a general partner, an officer or a person of appropriate supervisory or managerial rank of the member and shall have successfully completed a Registered Options Principal Qualification Examination, allied member's examination or other principal's examination or have demonstrated equivalent knowledge, and an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of foreign currency options and the markets for the underlying foreign currencies.

(j) The provisions of this Rule are applicable to currency and index warrants.

*Supplementary Material to Options 10, Section 7*

**.01** A designated Foreign Currency Options Principal, in meeting his responsibility for supervision of nonmember customer accounts and orders, may delegate to qualified employees responsibility and authority, as provided above in the case of the Senior Registered Options Principal.

**.02** Each member organization that conducts a non-member customer business shall establish, maintain, and enforce written procedures which detail the specific methods used to supervise all non-member customer accounts and all orders in such accounts. Such written procedures shall specifically identify the titles and positions of individuals who have been delegated authority and responsibility for an identified segment of the member organization's business, including option compliance functions. The procedures shall also include the registration status and location of all such supervisory and compliance personnel. Each member organization shall also

develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining uncovered short option positions, and specifically providing for frequent supervisory review of such accounts.

.03 Each member organization shall maintain, at the principal supervisory office having jurisdiction over the office servicing the customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each customer's options account, on a timely basis to determine (i) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved; (ii) the size and frequency of option transactions; (iii) commission activity in the account; (iv) profit or loss in the account; (v) undue concentration in any options class or classes; and (vi) compliance with the provisions of Regulation T of the Federal Reserve Board.

.04 As a general matter, supervisory qualifications of a designated Foreign Currency Options Principal may be demonstrated only by successful completion of a registered options principal examination, allied member's examination or other principal examination. In exceptional circumstances, however, the Exchange may, upon written request by a member organization, accept as a demonstration of equivalent knowledge other evidence of a designated Foreign Currency Options Principal's supervisory qualifications. Advanced age, physical infirmity or experience in fields ancillary to the foreign exchange trading, investment banking or securities businesses will not individually of themselves constitute sufficient grounds to excuse a designated Foreign Currency Options Principal from the general requirement that supervisory qualifications be shown by successful completion of an appropriate examination.

.05 Documentation evidencing the annual written report required by paragraph (g) of this Rule, must be maintained in a place that is easily accessible and shall be provided to the Exchange upon request.

### **Section 8. Suitability**

(a) No member, member organization or registered employee thereof shall recommend to any customer any transaction to purchase or write an option contract unless such member, member organization or registered employee has reasonable grounds to believe that the entire recommended transaction is not unsuitable for such customer on the basis of information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by such member, member organization or registered employee.

(b) No member, member organization or registered employee thereof, shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

(c) The provisions of this Rule are applicable to currency and index warrants.

### **Section 9. Discretionary Accounts**

(a) Authorization and Approval Required. The authorization of all discretionary options accounts and the approval of all discretionary options transactions shall be handled as follows:

(i) Stock, Index or Exchange-Traded Fund Share Options—No member or member organization and no partner or employee of a member organization shall exercise any discretionary power with respect to trading in stock, index or Exchange-Traded Fund Share options contracts in a customer's account unless such customer has given prior written authorization and the account has been accepted in writing by a Registered Options Principal. Each firm shall designate specific Registered Options Principals pursuant to Options 10, Section 7 to review discretionary accounts. A Registered Options Principal specifically delegated such responsibilities under Options 10, Section 7 (who is an individual other than the Registered Options Principal who accepted the account) shall review the acceptance of each discretionary account to determine that the Registered Options Principal accepting the account had a reasonable basis for believing that the customer was able to understand and bear the risks of the strategies or transactions proposed, and he shall maintain a record of the basis for his determination.

(ii) Foreign Currency Options—No member or member organization and no partner or employee of a member organization shall exercise any discretionary power with respect to trading in foreign currency options contracts in a customer's account unless such customer has given prior written authorization with respect to such trading and the account has been accepted in writing by a designated Foreign Currency Options Principal, who shall maintain a record of the basis for his determination that such customer was able to understand and bear the risks of the strategies or transactions proposed. Such designated Foreign Currency Options Principal must approve and initial each discretionary foreign currency options order on the day entered unless such order has already been approved and initialled by a Registered Options Principal, provided that in the case of approvals by Registered Options Principals who are not designated Foreign Currency Options Principals, such approvals shall be confirmed within a reasonable time by a designated Foreign Currency Options Principal.

(iii) General —Every discretionary order shall be identified as discretionary on the order at the time of entry. Discretionary accounts shall receive frequent appropriate supervisory review by the Registered Options Principal specifically delegated such responsibilities under Options 10, Section 7, who is not exercising the discretionary authority.

(iv) The provisions of this Rule are applicable to index warrants.

(b) Options Programs—Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the customer shall be furnished with a written explanation meeting the requirements of Options 10, Section 20 of the nature and risks of such programs.

(c) Prohibited Transactions—No member or member organization and no partner, officer or employee of a member organization shall effect with or for any customer's account in respect to which such member or member organization or partner, officer or employee of a member organization is vested with any discretionary power any transactions of purchase or sale of option contracts which are excessive in size or frequency in view of the financial resources and character of such account.

(d) Record of Transactions—A record shall be made of every option transaction for an account in respect to which a member or member organization or a partner, officer or employee of a member organization is vested with any discretionary authority, such record to include the name of the customer, the designation, number of contracts and premium of the option contracts, the date and time when such transaction took place and clearly reflecting the fact that discretionary authority was exercised.

(e) Discretion as to Time or Price Excepted—This Rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security or foreign currency shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined below, pursuant to valid Good-Till-Cancelled instructions issued on a "not held" basis. Any exercise of time and price discretion must be reflected on the order ticket. As used in this paragraph (e) the term "institutional account" shall mean the account of: (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (iii) any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

(f) Any member organization that does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary account activity must establish and implement procedures to require Registered Options Principal qualified individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

### **Section 10. Confirmations to Customers**

(a) Every member and member organization shall promptly furnish to each customer a written confirmation of each transaction in option contracts for such customer's account. Each such confirmation shall show the type of option, the underlying stock, Exchange-Traded Fund Share or foreign currency, as the case may be, the expiration month, the exercise price, the number of option contracts, the premium, commissions, the transaction and settlement dates, whether the transaction was a purchase or a sale (writing) transaction, whether the transaction was an opening or a closing transaction, and whether the transaction was effected on a principal or agency basis. The confirmation shall by appropriate symbols distinguish between Exchange

options transactions and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

### **Section 11. Statements of Accounts**

(a) Statements of accounts required by General 9, Section 65 shall be sent not less frequently than once every month to each customer in whose account there has been an entry during the preceding month with respect to an option contract and at least quarterly to all accounts having a money or a security position during the preceding quarter. Statements of accounts to customers shall show security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

(b) With respect to options customers having a general (margin) account, such statement shall also provide the mark-to-market price and market value of each option position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account and the general (margin) account equity. The statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed option transactions has been included in confirmations of such transactions previously furnished to the customer, and that such information will be made available to the customer promptly upon request. The statement shall also bear a legend requesting the customer to promptly advise the member of any material change in the customer's investment objectives or financial situation.

#### *Supplementary Material to Options 10, Section 11*

.01 For purposes of the foregoing Rule, general (margin) account equity shall be computed by subtracting the total of the "short" security values and any debit balance from the total of the "long" security values and any credit balance.

### **Section 12. Reserved**

### **Section 13. Delivery of Options Disclosure Documents**

(a) Options Disclosure Documents—Every member and member organization shall deliver a current Options Disclosure Document to each customer at or prior to the time such customer's account is approved for options transactions. A copy of each amendment to an Options Disclosure Document shall be furnished to each customer who was previously furnished the Options Disclosure Document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such customer. The term "current Options Disclosure Document" means the most recent edition of such Document which meets the requirements of Rule 9b-1 promulgated under the Exchange Act.

(b) The written description of risks required by Options 10, Section 2(c)(v) shall be in a format prescribed by the Exchange or in a format developed by the member organization, provided it



contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(c) Below is a sample risk description for use by member organizations to satisfy the requirements of paragraph (b) of this Options 10, Section 13:

**Special Statement for Uncovered Options Writers.**

There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.

2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.

4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.

5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.

6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. NOTE: It is expected that you will read the booklet entitled *CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS* available from your broker. In particular, your attention is directed to the chapter entitled *Risks of Buying and Writing Options*. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.

Supplementary Material to Options 10, Section 13

.01 Where the customer of a member or member organization is a broker or dealer entering his orders with the member or member organization in a single omnibus account, such member or member organization shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current Options Disclosure Documents, as requested by him in order to enable him to comply with the requirements of this Rule.

.02 Where a broker or dealer enters orders for his customers with, or clears transactions through, a member organization on a fully disclosed basis and such member organization carries the accounts of such customers, the responsibility for delivering one or more current Options Disclosure Documents as provided in this Rule shall rest with the member organization. However, such member organization may rely upon the good faith representation of the introducing broker or dealer that one or more current Options Disclosure Documents have been delivered in compliance with this Rule.

.03 The Exchange will advise members and member organizations when an Options Disclosure Document is amended.

#### **Section 14. Restrictions on Pledge of Customers' Securities**

(a) No agreement between a member organization and a customer authorizing the member organization to pledge securities carried for the account of the customer either alone or with other securities, either for the amount due thereon or for a greater amount, or to lend such securities, shall justify the member organization in pledging or lending more of such securities than is fair and reasonable in view of the indebtedness of said customer to said member organization, except as provided in paragraph (d) of this Rule.

##### Agreements for use of customers' securities

(b) No member organization shall lend, either to itself as broker or to others, securities held on margin for a customer and which may be pledged or loaned under paragraph (a) hereof, unless such member organization shall first have obtained a separate written authorization from such customer permitting the lending of such securities by such member organization.

##### Restrictions on delivery of customers' securities

(c) No general agreement between a member organization and a customer shall justify the member organization in delivering securities carried for the customer on sales made by the member organization for any account in which such member organization or any partner thereof or stockholder therein is directly or indirectly interested.

##### Free or excess margin securities

(d) No securities held by a member organization for the account of a customer, whether free or representing excess margin, may be loaned to itself as broker, or to others, or delivered on sales made by the member organization for any account in which the organization or any partner or stockholder has a direct or indirect interest unless a specific written agreement designating the particular securities to be loaned is first obtained from the customer.

**Section 15. Reserved****Section 16. Reserved****Section 17. Reserved****Section 18. Reserved****Section 19. Reserved****Section 20. Options Communications**

(a) Nasdaq PHLX members and persons associated with a member shall comply with FINRA Rule 2220 (except FINRA Rule 2220(c)) as if such Rule were part of Nasdaq PHLX's Rules. Nasdaq PHLX and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of Nasdaq PHLX. Therefore, Nasdaq PHLX members are complying with Nasdaq PHLX Rule 1049 by complying with FINRA Rule 2220 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Options 10, Section 20 are being performed by FINRA on Nasdaq's behalf.

**Section 21. Reserved****Section 22. Customer Complaints**

(a) Every member organization conducting a customer business shall maintain and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved. The central file shall be located at the principal place of business of the member organization or such other principal office as shall be designated by the member organization. At a minimum, the central file shall include: (i) identification of complaint; (ii) date complaint was received; (iii) identification of Registered Representative servicing the account; (iv) a general description of the matter complained of, and (v) a record of what action, if any, has been taken by the member organization with respect to the complaint. The term "options-related complaint" shall mean any written statement by a customer or person acting on behalf of a customer alleging a grievance arising out of or in connection with listed options. Each options-related complaint received by a branch office of a member organization shall be forwarded to the office in which the separate, central file is located no later than 30 days after receipt by the branch office. A copy of every options-related complaint shall be maintained at the branch office that is the subject of the complaint.

(1) The provisions of this Rule shall be applicable to index warrants.

**Section 23. Telemarketing**

(a) No member or person associated with a member shall:

(1) make outbound telephone calls to the residence of any person for the purpose of soliciting the purchase of securities or related services at any time other than between

8:00 a.m. and 9:00 p.m. local time at the called person's location, without the prior consent of the person; or

(2) make an outbound telephone call to any person for the purpose of soliciting the purchase of securities or related services without disclosing promptly and in a clear and conspicuous manner to the called person the following information:

(A) the identity of the caller and the firm; and

(B) the telephone number or address at which the caller may be contacted; and

(C) that the purpose of the call is to solicit the purchase of securities or related services.

(3) The prohibitions of paragraphs (1) and (2) shall not apply to telephone calls by any person associated with a member organization or another associated person acting at the direction of such person for the purpose of maintaining and servicing the accounts of existing customers of the member organization under the control of or assigned to such associated person:

(A) to an existing customer who, within the preceding twelve months, has affected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or the deposit, was under the control of or assigned to, such associated person:

(B) to an existing customer who previously has effected a securities transaction in, or made a deposit of funds or securities into, an account that, at the time of the transaction or deposit, was under the control of or assigned to such associated person, provided that such customer's account has earned interest or dividend income during the preceding twelve months, or

(C) to a broker or dealer.

For the purposes of paragraph (3), the term "existing customer" means a customer for whom the member organization, or a clearing member broker or dealer on behalf of such member organization, carries an account. The scope of this rule is limited to the telemarketing calls described herein; the terms of this rule shall not otherwise expressly or by implication impose on members any additional requirements with respect to the relationship between a member and a customer or between a person associated with a member organization and a customer.

(b) Each member organization shall make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations from such member organization or its associated persons.

(c) No member organization or person associated with such member organization shall obtain from a customer or submit for payment a check, draft or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account, without that person's express written authorization, which may include the customer's signature on the negotiable instrument. Such written authorization shall be preserved by the member organization for a period of not less than three years. This provision shall not, however, require maintenance of copies of negotiable instruments signed by customers.

#### **Section 24. Transactions With Issuers**

No member or member organization shall accept an order for the account of any corporation which is the issuer of an underlying stock or Exchange-Traded Fund Share for the sale (writing) of a call option contract with respect to that underlying stock or Exchange-Traded Fund Share.

#### **Section 25. Restricted Stocks**

For the purposes of: (i) covering a short position in a call option contract, or (ii) delivery pursuant to the exercise of a put option contract, or (iii) satisfying an exercise notice assigned in respect of a call option contract, no member or member organization shall accept shares of an underlying stock, which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act of 1933 or pursuant to SEC Rules promulgated under the Securities Act of 1933, unless, at the time such securities are accepted and at any later time such securities are delivered, applicable provisions of the Securities Act of 1933 and the rules thereunder have been complied with by the holder of such securities.

#### **Options 11 Minor Rule Plan Violations**

##### **Section 1. Lead Market Maker as Market Maker**

Lead Market Makers who are also Market Makers shall not have their Lead Market Maker activity included in the calculation for required trading as a Market Maker.

#### **FINE SCHEDULE**

Fine not applicable

##### **Section 2. Option Quote Parameters**

When bidding and/or offering in equity option or index option issues, the following parameters should be utilized on the opening:

<b><u>Current Option Bid</u></b>	<b><u>Maximum Quote Spread</u></b>
<u>Less than \$2.00</u>	<u>.25</u>
<u>\$2.00 to less than \$5.00</u>	<u>.40</u>
<u>\$5.00 to less than \$10.00</u>	<u>.50</u>
<u>\$10.00 to less than \$20.00</u>	<u>.80</u>
<u>\$20.00 and greater</u>	<u>1</u>

After the opening, options trading on the System may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening).

The bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment.

### Foreign Currency Options

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized on the opening:

<u>Current Option Bid</u>	<u>Maximum Quote Spread</u>
<u>Less than \$2.00</u>	<u>.25</u>
<u>\$2.00 to less than \$5.00</u>	<u>.40</u>
<u>\$5.00 to less than \$10.00</u>	<u>.50</u>
<u>\$10.00 to less than \$20.00</u>	<u>.80</u>
<u>\$20.00 and greater</u>	<u>1</u>

After the opening, options trading on the System may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening).

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

### Relief

Relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.

### Batching

The Exchange may aggregate individual violations and treat such violations as a single offense.

### FINE SCHEDULE (Implemented on a one-year running calendar basis)

1st Occurrence                      Warning letter

<u>2nd Occurrence</u>	<u>Warning letter</u>
<u>3rd Occurrence</u>	<u>Warning letter</u>
<u>4th Occurrence</u>	<u>\$250.00</u>
<u>5th Occurrence</u>	<u>\$500.00</u>
<u>6th Occurrence</u>	<u>\$1,000.00</u>
<u>7th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

### **Section 3. Failure to Comply with an Exchange Inquiry**

Each member, member organization or associated person is required to promptly comply with any request of information made by the Exchange in connection with any regulatory inquiry, investigation or examination relating to the Exchange's disciplinary jurisdiction or regulatory obligations.

For the purposes of this Advice, information received within ten (10) business days from the date of the original request shall be deemed to meet the requirement of prompt compliance, except, for purposes of Exchange requests, information received within two business days from the date of the original request shall be deemed to meet the requirement of prompt compliance.

The Exchange may under extenuating circumstances grant extensions to allow for responses beyond the allotted requirement. Requests for extensions must be submitted in writing to the appropriate department, prior to the due date of the outstanding request. Each additional request for information not furnished within the allotted time periods may be considered a separate occurrence for purposes of the fine schedule below.

#### FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

### **Section 4. Affiliations**

(i) Affiliations must be filed in writing with the Exchange's Membership Department as provided by General 3, Section 11.

#### FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>

4th Occurrence and Thereafter      Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **Section 5. Unusual Market Conditions**

In the interest of maintaining a fair and orderly market under unusual market conditions for one or more classes of options, an Options Exchange Official may determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote rule in a manner that accurately reflects the current market on the Exchange. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist.

### **FINE SCHEDULE**

Fine not applicable

### **Section 6. Supervisory Procedures Relating to ITSFEA**

(a) Member organizations must maintain written supervisory procedures as required by the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA). Such procedures must be reasonably designed to prevent the misuse of material, non-public information by employees.

(b) In addition to the requirements under ITSFEA, the Exchange herein institutes basic minimum standards for incorporation into ITSFEA-related written supervisory procedures for all member organizations. The requirements enumerated below must be included and, together with all related additional written supervisory procedures maintained in accordance with paragraph (a) above, must receive approval by the Exchange. These requirements are not intended to supersede, or be presumed to fulfill, the requirements of ITSFEA. These requirements are instead set forth as separate requirements of the Exchange.

In the instance where a member organization is subject to written supervisory procedures relating to ITSFEA, imposed by another self regulatory organization which is its designated examining authority ("DEA"), the Exchange requirements set forth in paragraph (b) of this Advice will not apply.

(1) Each new employee of the organization shall be furnished with a copy of the most current version of the Exchange's "Notice of Insider Trading" (Notice), or a document substantially similar to the Notice approved by the DEA for use in this connection. Within ten business days from the first date of employment with the Unit, each new employee must sign and return the Notice to the employer. By his signature on the Notice, the employee attests to having carefully read the Notice and agrees to appropriately supply the employer Firm with all trading accounts for which such person maintains a beneficial interest, including all personal and household accounts of the employee. Also, by his signature on the Notice, each new employee ensures that delivery



of all related account statements will be made directly from the Firm(s) maintaining the account to the employer.

(2) Each Unit must complete the Exchange's "ITSFEA Accounts List," comprising all accounts submitted in connection with paragraph (1) above and all proprietary accounts of the Unit. Updates to the list must be made within one month of any change and each completed version of the list must be maintained for no less than three years by the Unit.

(3) Each month a supervisory person of the Unit is required to make a reasonable review of all activities from the account statements of those accounts reflected on the ITSFEA Accounts List with a view toward identifying the possible misuse of material non-public information. A report must be made promptly to the Exchange's Regulatory staff in the event that any such unusual profits are so identified.

Failure to properly maintain the ITSFEA Accounts List, or to conduct related reviews required by this Advice, may result in the issuance of fines in accordance with the schedule below.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**Section 7. Minor Infractions of Position/Exercise Limits and Hedge Exemptions**

(a) Minor violations of the Exchange's position and exercise limits (Options 9, Section 13 - Position Limits, Options 9, Section 15 - Exercise Limits, Option 4A, Section 6 - Position Limits, and Options 4A, Section 10 - Exercise Limits) which do not exceed such limits by more than 5% may result in the issuance of a fine in accordance with section (a) of the fine schedule below.

In addition, when a position limit exemption for a specific period has lapsed without the position either being brought into compliance or a new exemption granted, a fine in accordance with section (a) of the fine schedule below may be issued.

Other violations of the position and exercise limit are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

(b) Automatic hedge exemptions are available for stock option positions. Specifically, each option of a stock option position hedged by 100 shares of stock or securities convertible into such stock, is exempted from having to be included in the aggregation count for the purposes of the position and exercise limits. The exemption is limited, however, to an amount of option

contracts no greater than twice the standard limit of the respective option. Permissible hedges are provided below:

long stock, short call

long stock, long put

short stock, long call

short stock, short put

(1) When utilizing a hedge exemption, a report of the position must be received by the Exchange's Regulatory staff in a manner prescribed by the Exchange no later than the close of business following the day the exemption is availed upon. Failure to provide the Exchange with a hedge exemption form as required may result in the issuance of a fine in accordance with section (b)(i) of the fine schedule below.

(2) Hedge exemptions apply for only as long as the hedge is maintained. In any instance where the stock side to a hedge exemption is decreased, the appropriate number of options must be liquidated prior to or simultaneous with the corresponding decrease in any stock position utilized to provide an automatic option hedge exemption. Failure to appropriately reduce the respective option position following such a decrease in the stock position such that the position limit does not exceed the limit by more than 5% may result in the issuance of a fine in accordance with section (b)(ii) of the fine schedule below. Instances where the resulting position exceeds established limits by more than 5% are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4Th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

(b)

(i)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

(ii)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**Section 8. Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts**

A member organization of this Exchange which is also a clearing member of OCC carrying accounts for Lead Market Makers and Market Makers/market makers is required to take reasonable steps to ensure that only those positions in Exchange listed options which are eligible for exempt credit treatment are carried in the market functions account. Any transaction on another Exchange in an option that is also listed on the Exchange is covered by this Advice. Reasonable steps include the adoption and implementation of procedures designed to detect any pattern of activity in contravention of this Advice.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
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<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

FINE SCHEDULEFine not applicable**Section 9. Options Exchange Official Rulings**

Options Exchange Officials are empowered to render rulings on the trading floor to resolve trading disputes occurring on and respecting activities on the trading floor. All rulings rendered by Options Exchange Officials are effective immediately and must be complied with promptly. Failure to promptly comply with a ruling concerning a trading dispute may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other rulings issued pursuant to Order and Decorum Regulations or Floor Procedure Advices and not concerning a trading dispute may result in an additional violation. Options Exchange Officials need not render decisions in any instance where the request for a ruling was not made within a reasonable period of time. An Options Exchange Official should not render a decision or authorize a citation where such Options Exchange Official was involved in or affected by the dispute, as well as in any situation where the Options Exchange Official is not able to objectively and fairly render a decision.

Options Exchange Officials shall endeavor to be prompt in rendering decisions. However, in any instance where an Options Exchange Official has determined that the benefits of further discovery as to the facts and circumstances of any matter under review outweigh the monetary risks of a delayed ruling, the Options Exchange Official may determine to delay rendering the ruling until such time as that further discovery is completed. In issuing decisions for the resolution of trading disputes, Options Exchange Officials shall institute the course of action deemed by the ruling Options Exchange Official to be more fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. However, an Options Exchange Official may nullify a transaction if they determine the transaction to have been in violation of Options 2, Section 4 (Obligations of Market Makers) or Options 8, Section 24 (Bids And Offers-Premium).

Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of an Options Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or

ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

All Options Exchange Official rulings concerning the adjustment and nullification of transactions are reviewable by the Exchange Review Council.

(1) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings concerning the nullification or adjustment of transactions may be sustained, overturned or modified by the Exchange Review Council. In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).

(2) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to Options 8, Section 35(d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Exchange Act, as amended, and the rules thereunder.

(3) A member or member organization seeking the Exchange Review Council review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council.

(4) Decisions of the Exchange Review Council concerning the review of Options Exchange Official rulings relating to the nullification or adjustment of transactions shall be final and may not be appealed to the Exchange's Board of Directors.

(5) Failure to promptly comply with an Options Exchange Official or Exchange Review Council decision under this Rule may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

## FINE SCHEDULE

### **Section 10. Failure to Provide Notification of Changes in Business Operations**

Any member organization for which the Exchange is the Designated Examining Authority ("DEA") shall provide prior written notification to the Exchange or its designee of any change in the business operations of such member organization which would cause the member organization to be subject to additional or modified net capital requirements, examination schedules or other registration, examination or regulatory requirements.

For the purposes of this Advice, the appropriate time frame for notification is at least 10 business days prior to the change in business operations.

FINE SCHEDULE (Implemented on a three year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**Section 11. Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD**

Any member organization that is required to file Form U4, Form U5 or Form BD pursuant to Exchange Rules or the Exchange Act and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Member organizations and participant organizations shall amend Form U4, Form U5 or Form BD not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department or Department of Enforcement</u>

**Section 12. Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts**

Any member who fails to submit to the Exchange in a timely manner pursuant to Options 6B, Section 1, or an exercise instruction relating to the exercise or nonexercise of a noncash-settled equity option shall be subject to the following fines:

FINE SCHEDULE (Implemented on a running 24 month period)

	<u>Individual</u>	<u>Member Organization</u>
<u>1st Occurrence</u>	<u>\$500.00</u>	<u>\$1,000.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>	<u>\$2,500.00</u>
<u>Subsequent Occurrence And Thereafter</u>	<u>\$2,500.00</u>	<u>\$5,000.00</u>

**Section 13. Index Option Exercise Advices**

In accordance with the provisions of Options 4A, Section 15, all Lead Market Makers, Market Makers, customers and Firms must complete an exercise advice when exercising any American

style index option contract(s) and exercise the amount of option contracts indicated on the exercise advice.

Lead Market Makers, Market Makers, customers and Firms must time stamp and submit the completed exercise advice to Exchange staff at the Surveillance Post or in the trading crowd no later than five minutes after the close of trading on the day of the exercise with respect to any American style index option traded on the Exchange. Exercise advices for index options are not required on (a) the business day prior to expiration in series expiring on a day other than a business day or (b) the expiration day in series expiring on a business day.

Those Firms utilizing the electronic systems of The Options Clearing Corporation to meet the time requirements of this Advice must transmit to The Options Clearing Corporation index exercise instructions according to the time frames described above.

The fine schedule below provides sanctions for infractions of the index option exercise advice procedures which are minor in nature. Any violation of the procedure which has been deemed serious by the Exchange will be referred directly to the Exchange's Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement where stronger sanctions may result.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>